

# CONGRESSIONAL DIGEST

WASHINGTON D.C.



THE PRO AND CON MONTHLY

== October, 1931 ==

## America's War Debt Policy

Hoover Moratorium and the Debt Problem  
Sums Involved in 1931-32 Debt Holiday  
History of German Reparations to Date  
How the Debts Were Incurred and Funded  
Amounts Already Cancelled by America  
Past and Present Arguments on Total  
Cancellation - - - Pro and Con

The Race for Control of 72d Congress



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# The Congressional Digest

## The Pro and Con Monthly

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ALICE GRAM ROBINSON, NORBORNE T. N. ROBINSON, *Editors and Publishers*  
Editorial Offices, Munsey Building, Washington, D. C.

Published Every Month, except for July and August. Current Subscription Rates: \$5.00 a Year, Postpaid in U. S.; in Canada \$5.25; Foreign Rates \$5.50; Current Numbers \$50c a copy; Back Numbers 75c a copy; Special Rates in quantity lots; Volumes Bound, \$7.50; Unbound, \$6.00. Address all Orders and Correspondence to:

THE CONGRESSIONAL DIGEST, Munsey Building, Washington, D. C.

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Entered as Second-Class Matter September 26th, 1921, at the Post Office at Washington, D. C., under the Act of March 3, 1879.  
Additional entry as Second-Class Matter at the Post Office at Baltimore, Maryland, under the Act of March 3, 1879; authorized August 22, 1927

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THE CONGRESSIONAL DIGEST is Indexed in the Readers' Guide

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# The CONGRESSIONAL DIGEST

October, 1931  
Vol. 10 No. 10

## An Announcement

**EVIDENCE** of a sound and increasing interest in practical politics reaches the CONGRESSIONAL DIGEST daily from all parts of the country. The American citizen is displaying a wholesome curiosity to know just how politics affect government.

The DIGEST therefore will devote space each month to a report of political developments at the Capitol, pointing out the political significance attached to the handling of legislation as well as explaining how the political organization of Congress operates.

## Why Political Control of the Incoming 72nd Congress is Still in Doubt

by N. T. N. Robinson

**T**HAT the approaching first session of the Seventy-second Congress, beginning on December 7, will be one of the liveliest sessions of recent years is conceded by everyone who has even a superficial knowledge of national politics.

The session of a Congress immediately preceding a Presidential campaign is always an open season for the making of campaign issues. It is during this season that the party leaders sow the political seed which they fervently hope will blossom forth into effective campaign issues, to be garnered in the end as a bumper crop of votes.

And if this condition prevails in normal times it is certain to be intensified in such a period as the present, when national politics is decidedly out of alignment. And beside from the political situation there are abundant other reasons why the approaching session of Congress will be marked by feverish activity.



To begin with, there are a number of problems or issues, real and fancied, which are comparatively new. Add these to the number of controversial questions that have been before Congress for several years and a formidable list of highly controversial topics results.

Some of the new problems have come to the fore in the natural course of the country's rapid post-war development. Others are coincident with the European post-war depression finding its reflex in America. Others are pouring forth from the ever flowing font of pure politics.

In a normal condition in Congress, wherein one party or the other has a controlling majority in both houses, the situation would be difficult to a certain extent, but it

could be handled by the majority finally and definitely. With both houses so equally divided politically as to render the organization of either house actually in doubt the situation becomes decidedly complicated.

But before the curtain is raised on the political drama of 1932 an extremely important prologue must be enacted. That prologue involves the organization of the Senate and the House. After the elections of 1928 both houses of Congress were organized and controlled by the Republicans. In the House the Republicans had a good working majority for ordinary legislation. It was thrown out of gear now and again on certain controversial pieces of legislation, but for the most part it worked effectively. In the Senate the Republicans had a narrow paper majority which was upset so frequently as to make it plain that real Republican control was actually lacking.



As a result of the Congressional elections of 1930 the margin of control in either house in the Seventy-second Congress is so narrow as to render it a matter of doubt, two months in advance of the convening of Congress, as to which party will have control.

When the votes had all been counted in 1930 it was found that the membership of the House stood as follows: Republicans 218; Democrats 216; Farmer-Labor 1.

From the day of election in 1930 down to September 21, 1931, the passing of Members-elect had left vacancies in 10 Congressional districts.

Under the Constitution of the United States vacancies in the House of Representatives must be filled by elections. All states have laws providing for this contingency. The state laws vary, however, as to the time limit within which the special election must be held after the occurrence of a vacancy.

A vacancy in the Senate may be filled by appointment by the governor of the state whose seat in the Senate is vacant. This is because a Senator is the representative of his state, whereas a member of the House is the representative of the people who live in the district from which he is elected and therefore must be elected by those people.

Three of the 10 House vacancies have been filled by special elections and the remaining seven will have been filled by special elections on or before November 3. With these seven districts still unrepresented, the membership of the House stands:

Republicans 214; Democrats 213; Farmer-Labor 1.

Thus, if four of the seven districts elect Democrats and three elect Republicans, the Republicans and Democrats will have 217 members each, with the Farmer-Labor Member holding the balance of power in the election of House officers.

Of these seven districts, three are considered almost surely Republicans—the Second Pennsylvania, the First Wisconsin and the Eighth Michigan. Two are considered surely Democratic—the Seventh New York and the Twentieth Ohio, the one being a Tammany district and the other a Cleveland district.

In the two remaining districts—the First Ohio and the Seventh Missouri—the contests are considered close. Both sides are claiming victory in advance but estimates made by careful politicians familiar with the two districts indicate that the chances are that the First Ohio District, left unrepresented by the passing of Nicholas Longworth, Speaker of the House, will go Republican after a hard fight and that the Seventh Missouri will go Democratic, also after a hard fight.

There is enough doubt involved, however, to make House leaders of both parties watch these two districts closely and with keen interest.



The Cincinnati district is normally Republican. In 1930 Mr. Longworth came through with an unusually scant majority, for him, of 3507. Conditions were generally upset in the district and, to a certain extent, still are, but Republicans predict that their candidate, John B. Hollister, will win by from 5000 to 8000. This is disputed by the Democrats whose candidate, David Lorbach, is making an intensive campaign, backed by the Democratic National Committee. Both candidates are "wet" so the liquor question does not enter into the campaign. There is a large German American population in the district and the Republicans declare that President Hoover's moratorium plan has strengthened Hollister's chances materially.

The Seventh Missouri district, normally Democratic, sent a Republican to the House in 1928, but he was defeated in 1930 by Samuel C. Major, a Democrat, who passed on after his election. The Republicans have renominated the man elected in 1928, John W. Palmer, and the Democrats have nominated Robert D. Johnson. It is expected that this district will go Democratic, although the Republicans are given an outside chance of carrying it. The district is agricultural and the Democrats are centering their attacks on the policies of the Federal Farm Board.

Thus, the indications are that at the various special elections held to fill the ten vacancies, the districts will follow their records at the regular elections of 1930 and that on December 7, barring the occurrence of further vacancies in the meantime, the House will stand as it did immediately after the 1930 elections.

Thus, if the Farmer-Labor member, Paul J. Kvale of the Seventh Minnesota District, votes with them, the Republicans will have a majority of three. If Mr. Kvale votes with the Democrats, the Republicans will have a majority of one.

An upset that would give one or more Republicans districts to the Democrats would make matters even closer or might lead to Democratic control of the House.



This leaves the contest for control "a horse race" until November 3. The election in the Seventh Missouri District will be held on September 29. In the First Wisconsin District a primary will be held October 3 at which candidates will be chosen for an election to be held October 13. The other five districts will hold elections on November 3.

After the election of 1928 the membership of the Senate stood Republicans 56; Democrats 39; Farmer-Labor 1.

In the Seventy-second Congress the membership of the Senate, as given in the unofficial list of the latest Congressional Directory is: Republicans 48; Democrats 47; Farmer-Labor 1.

Thus, if the Farmer-Labor Senator, Hendrik Shipsted of Minnesota, votes with the Republicans, they will have a majority of two for organization purposes. If Mr. Shipsted votes with the Democrats there will be a tie and Vice-President Curtis, Republican, will have the deciding vote. Thus, the Republicans, on paper, should be able to organize the Senate.

It is impossible to present anything approaching reliable speculation as to the outcome of the struggle for control of the Senate and the House until after November 3. With the House returns all in leaders of both parties will begin to marshal their forces and prepare for the battle.

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## Politics - -

1. *The science and art of government; the science dealing with the organization, regulation, and administration of a State, in both its internal and external affairs; political science; also, formerly, that branch of ethics dealing with the ethical relations and duties of states or social organizations.*

2. *The theory or practice of managing or directing the affairs of public policy or of political parties; hence, political affairs, principles, convictions, opinions, sympathies, or the like; in a bad sense, artful or dishonest management to secure the success of political candidates or parties.—Webster's New International Dictionary.*



## **America's War Debt Policy**

### **Foreword**

**W**HEN President Hoover, in his aim to relieve world-wide depression, announced on June 20, 1931, his proposal for a one year's moratorium on Germany's reparations payments to the Allied Governments and a one year's moratorium on payments due the American Government from those foreign Governments on account of their war debts, he was explicit in his statement that reparations and war debts owed to America were in nowise connected and that he did not approve "in any remote sense of the cancellation of the debts to us."

In spite of this emphatic reiteration of the American official position, which was first announced by President Wilson and which was maintained by Presidents Harding and Coolidge, discussions of the proposed moratorium both in America and abroad were immediately marked by references to either revision or cancellation of the war debts as a possible outcome of the adoption of the moratorium plan.

Both proponents and opponents of debt cancellation pointed out promptly that, for the first time, the American Government, no matter what President Hoover said, was actually coupling reparations and war debts, since the moratorium plan meant that if the Allied Governments agreed to a year's holiday in reparation payments the American Government would agree to a holiday for the same period in debt payments—that the one was contingent upon the other.

Following hard upon the adoption of the moratorium by the London Conference on July 23 and the publication of the report of the experts at Basle, Switzerland on August 19 came suggestions for an extension of the period of the moratorium for five years; for a revision of reparations and war debts; and pleas for cancellation.

Since many of the outstanding opponents of debt cancellation are members of the United States House of Representatives and the United States Senate, it is a foregone conclusion that when the moratorium plan comes before Congress for approval a thorough threshing out of the debt question will occur in both houses.

Unlike a treaty, the ratification or rejection of which is the duty of the Senate alone, the moratorium agreement must be considered by both houses of Congress. The reason for this is that in the question is involved the matter of revenue raising.

The Constitution of the United States, Art. 1, Section 7 reads:

"All Bills for raising Revenue shall originate in the House of Representatives; but the Senate may propose or concur with Amendments as on other Bills."

Before the American Government could lend any money to the Allies during the World War the authority of Congress had to be given to the raising of that money. This was done by the passage of the Liberty Loan Acts

and subsequent Acts of Congress, which authorized the Secretary of the Treasury to sell Government bonds for the purpose.

After the war, when it was decided to work out definite debts settlements, Congress passed an Act creating the World War Foreign Debt Commission to which was granted certain specific authority. This Commission worked out agreements with all the debtor nations, which agreements were approved by Congress. After which the Commission went out of existence.

A moratorium for one year on the payments arranged by this Commission involves a change of time in the terms of the debt agreements as authorized by Congress. Hence, this change must be approved by Congress.

In announcing his plan for the moratorium President Hoover emphasized the fact that before making his formal announcement he had called into conference every member of the House and Senate who was in Washington, Republicans and Democrats alike, and discussed it with them. Their approval was in the nature of an assurance to the President that he could go ahead with his plan and count on their support when Congress convened. The plan went into effect on July 1, 1931.

While there is no doubt that the plan will be formally approved by Congress this does not mean that it will not be the subject of full debate.

During the past few years there has been comparatively little mention of debt cancellation on the floor of either the Senate or the House. So far as nine-tenths of the membership of Congress was concerned, debt cancellation was a closed question; the policy of the American Government on the subject was fixed.

As the result of the report of the Wiggin Committee, however, plus the renewed activity of cancellation proponents in Europe and in the United States, the question is again to the fore.

So far as German reparations are concerned, the American Government is not directly interested, since what small payments it has been receiving from Germany for the cost of the Army of Occupation and the adjustment of property seizure claims, are being taken care of by the separate treaty entered into between Germany and the United States.

The reparations Germany is paying the other nations are the result of the Treaty of Versailles, to which the United States is not a party.

To gain an understanding of the background of the Hoover moratorium and to be ready to follow the debates on the general international financial situation which will rage in and out of Congress during the next few months, the reader of this number of *The Digest* should read chronologically. As he goes through the following pages the history of the problem will unfold and he will be able to form his own opinion as to its solution.

# Highlights in the War Debt Negotiations - -

1917-1931

## 1914

ON August 1, when Germany and Austria, following Austria's declaration of war against Serbia, joined in declaring war on Russia, the World War began. Russia had supported Serbia in her diplomatic discussions with Austria over the Sarajevo incident.

France came to the support of Russia, with whom she had an alliance. Belgium became involved when Germany started sending armed forces through her territory and offered armed resistance to Germany. England followed Belgium. Soon other nations became involved until Europe was divided into two armed camps.

Germany and Austria and their supporters were known as the Central Powers. France, England, Belgium and Russia were known as the Entente Powers, or Allied Powers, generally called throughout the war, the Allies.

## 1917

ON April 7, the Congress of the United States voted a declaration of war against Germany and Austria.

The Allied Powers, whose resources had been heavily drained by nearly three years of warfare, were in immediate need, not only of additional supplies but of money to purchase them. As soon as America entered the conflict negotiations were entered into for financial aid which resulted, almost immediately in the passage by Congress of the first of a series of Acts to raise money to lend to the Allies.

On April 24, the First Liberty Loan Act was approved. It provided for the issue of U. S. bonds to the amount of \$3,000,000,000 which sum the Secretary of the Treasury was authorized to use for the purchase at par of bonds of the Allied Governments.

This was followed by a second act, approved September 24, 1917, opening an additional credit to the Allies of \$4,000,000,000.

On April 25, the first cash advance to a foreign government under the First Liberty Loan Act was made to Great Britain in the amount of \$2,000,000.

## 1918

THE Second Liberty Loan Act was later amended by the Acts of April 4, 1918, and July 9, 1918, each of which authorized an additional credit of \$1,500,000,000, bringing the total credits authorized by the four Liberty Loan Acts to \$10,000,000,000.

An Act of Congress, approved May 10, 1918, authorized the Secretary of War to sell surplus war material remaining in Europe after the war to foreign governments and to accept their obligations in payment thereof.

On November 11, 1918, the Armistice was signed, bringing hostilities to an end.

## 1919

ON January 15, M. Edouard de Billy, French Deputy High Commissioner wrote Secretary of the Treasury Glass stating that the French Government looked upon the war debts as questions concerning all the Allies, which should be settled in one general and simultaneous agreement.

On January 29, Secretary Glass replied to M. Billy, stating that it would be the policy of the Treasury Department to settle with each debtor nation separately.

The De Billy letter was the first formal suggestion that the war debts should be lumped. Prior to the De Billy letter, however, British officials had sounded American officials visiting London on this question, but had received no encouragement.

Later several "feelers" were put out from London, but all suggestions as to general consideration of the foreign debts were promptly rebuffed by various American officials.

On February 25, Congress appropriated \$100,000,000 for European relief. This was supplemented by an additional appropriation of \$107,764, on Feb. 27, 1922.

## 1920

ON February 20, the British Chancellor of the Exchequer, through the British Embassy at Washington, sent a message to Assistant Secretary of the Treasury Leffingwell in which the following appeared:

"We should welcome a general cancellation of inter-governmental war debts. The moral effect would even be a greater practical change and fresh hope and confidence would spring up everywhere. The existence of these international debts deters neutrals from giving assistance, checks private credits, and will, I fear, prove a disturbing effect in future international relations."

On March 1 Secretary of the Treasury Houston, who had succeeded Secretary Glass, wrote a reply to the Chancellor of the Exchequer, in which he said:

"As to the general cancellation of intergovernmental war debts suggested by you, you will, I am sure, desire that I present my views no less frankly than you have presented yours. Any proposal or movement of such character would, I am confident, serve no useful purpose. On the contrary, it would, I fear, mislead the people of the debtor countries as to the justice and efficacy of such a plan and arouse hopes, the disappointment of which could only have a harmful effect. I feel certain that neither the American people nor our Congress, whose action on such a question would be required, is prepared to look with favor upon such a proposal.

"Apparently there are those who have been laboring for some time under the delusion that the inevitable consequences of war can be avoided. As far back as January, a year ago, before it could possibly be foreseen whether any measures were necessary other than the adoption of sound economic policies, various schemes, including that of a cancellation of intergovernmental war debts, were launched. Of course, I recognize that a general cancellation of such debts would be of advantage to Great Britain and that it probably would not involve any losses on

her part. As there are no obligations of the United States Government which would be canceled under such a plan, the effect would be that, in consideration of a cancellation by the United States Government of obligations which it holds for advances made to the British Government and the other allied Governments, the British Government would cancel its debts against France, Italy, Russia and her other allies. Such a proposal does not involve mutual sacrifices on the part of the nations concerned. It simply involves a contribution mainly by the United States.

"A general cancellation as suggested would, while retaining the domestic obligations intact, throw upon the people of this country the exclusive burden of meeting the interest and of ultimately extinguishing the principal of our loans to the allied governments. This Nation has neither sought nor received substantial benefits from the war. On the other hand, the Allies, although having suffered greatly in loss of lives and property, have, under the terms of the treaty of peace and otherwise, acquired very considerable accessions of territories, populations, economic and other advantages. It would, therefore, seem that if a full account were taken of these and of the whole situation there would be no desire nor reason to call upon the Government of this country for further contributions."

On March 30, Congress passed an Act authorizing the U. S. Grain Corporation to sell five million barrels of flour for cash to buy food for the population of European countries.

On August 5, after preliminary correspondence between lesser officials of the British and American Governments, Lloyd George, Prime Minister of Great Britain, wrote to President Wilson asking his views on an arrangement whereby German reparations and interallied debts would be considered as one problem. The Prime Minister stated, in his letter, that his Government would like this question settled before it took up the problem of funding its indebtedness to the United States.

On November 3, replying to Mr. Lloyd George, President Wilson wrote:

"You will recall that suggestions looking to the cancellation or exchange of the indebtedness of Great Britain to the United States were made to me when I was in Paris. Like suggestions were again made by the chancellor of the exchequer in the early part of the present year. The United States Government by its duly authorized representatives has promptly and clearly stated its unwillingness to accept such suggestions each time they have been made and has pointed out in detail the considerations which caused its decision. The views of the United States Government have not changed, and it is not prepared to consent to the remission of any part of the debt of Great Britain to the United States. Any arrangements the British Government may make with regard to the debt owed to it by France or by the other allied Governments should be made in the light of the position now and heretofore taken by the United States, and the United States, in making any arrangements with other allied Governments regarding their indebtedness to the United States (and none are now contemplated beyond the funding of the indebtedness and the postponement of payment of interest), will do so with the understanding that any such arrangement would not affect the payment in due course of the debt owed the United States by Great Britain. It is felt that the funding of these demand obligations of the British Government will do more to strengthen the friendly relations between America and Great Britain than would any other course of dealing with the same.

"The United States Government entirely agrees with the British Government that the fixing of Germany's reparation obligation is a cardinal necessity for the renewal of the economic life of Europe and would prove to be most helpful in the interests of peace throughout the world; however, it fails to perceive the logic in a suggestion in effect either that the United States shall pay part of Germany's reparation obligation or that it shall make a gratuity to the allied Governments to induce them to fix such obligation at an amount within Germany's capacity to pay. This Government has endeavored heretofore in a most friendly spirit to make it clear that it cannot consent to connect the reparation question with that of intergovernmental indebtedness."

## 1921

ON December 19, following several discussions of the subject, British and French officials met in England and French officials proposed that the interallied debts should be deducted from the German debt. From this time the inter-allied debts and German reparations were continually linked by European officials.

On December 22 Congress passed an Act authorizing the President to spend \$20,000,000 out of the funds of the Grain Corporation for the relief of distressed and starving people in Russia, and a month later authorized the President to transfer surplus medical supplies to the value of \$4,000,000 for famine stricken Russians.

## 1922

ON February 9 an Act of Congress creating the World War Foreign Debt Commission was approved. The commission was authorized and directed under certain conditions to refund or convert obligations of foreign governments arising out of the World War, now held (or hereafter received) by the United States." One provision stated that "This act shall not be construed to authorize \* \* \* the cancellation of any part of such indebtedness except through payment thereof." The Act also provided that the Secretary of the Treasury should be a member of the commission and act as its chairman.

On February 21, President Harding appointed as members of the commission, in addition to Andrew W. Mellon, Secretary of the Treasury; Charles Evans Hughes, Secretary of State; Herbert C. Hoover, Secretary of Commerce; Reed Smoot, U. S. Senator from Utah, and Theodore E. Burton, U. S. Representative from Ohio. On February 28, 1923, his Act was amended to authorize the commission to make certain arrangements with Great Britain, after which two more members were added to the commission—Charles R. Crisp, U. S. Representative from Georgia, and Richard Olney, former U. S. Representative from Massachusetts.

On April 22 the commission held its first meeting, appointed Eliot Wadsworth, Assistant Secretary of the Treasury, Secretary of the Commission. Mr. Wadsworth remained Secretary to the Commission until his resignation November 15, 1922, when Garrard B. Winston, Under Secretary of the Treasury, was appointed to succeed him.

At its first meeting the Commission adopted a resolution inviting the various interested Governments to send representatives to Washington to discuss refunding. France and England sent representatives to Washington during the summer and autumn to arrange for refunding conferences.

On May 29, the last cash advance made to a foreign government under the Liberty Loan Acts was made to Czechoslovakia in the sum of \$717,834.36.

On May 31, in a speech in the House of Commons, Lloyd George conditioned the cancellation of British credits to other Allied Powers to similar action on the part of the United States.

On July 12 the German Government demanded a moratorium on her reparations payments and, in interallied conferences, France announced that she would make no payments on her debts until Germany had paid for her



devastated areas. This led to the occupation of the Ruhr Valley by France in January, 1923.

On August 1 Earl Balfour sent his famous note to a meeting of officials of the Allied Governments, in which he said:

"This, after all, is not a question merely between allies. Enemy countries also are involved; for the greatest of all international debtors is Germany. Now His Majesty's Government do not suggest that, either as a matter of justice or expediency, Germany should be relieved of her obligation to the other allied States. They speak only for Great Britain; and they content themselves with saying once again that, so deeply are they convinced of the economic injury inflicted on the world by the existing state of things that this country would be prepared (subject to the just claims of other parts of the Empire) to abandon all further right to German reparation and all claims to repayment by allies, provided that this renunciation formed part of a general plan by which this great problem could be dealt with as a whole and find a satisfactory solution. A general settlement would, in their view, be of more value to mankind than any gains that could accrue even from the most successful enforcement of legal obligations."

On August 24, Secretary of the Treasury Mellon, in response to various inquiries, issued a general statement on the status of the foreign debts in which he said:

"The statement that the United States Government virtually insisted upon a guaranty by the British Government of amounts advanced to the other allies is evidently based upon a misapprehension. Instead of insisting upon a guaranty, or any transaction of that nature, the United States Government took the position that it would make advances to each Government to cover the purchases made by that Government and would not require any Government to give obligations for advances made to cover the purchases of any other Government. Thus, the advances to the British Government, evidenced by its obligations, were made to cover its own purchases, and advances were made to the other allies to cover their purchases."

Mr. Mellon added that the principle of making separate and independent arrangement with each nation regarding money loaned to it had been set forth clearly in two separate memoranda delivered to the British Ambassador at Washington, one in June, 1918, and the other in June, 1920.

(Continued on page 256)

## Status of Foreign Debt Settlements

*Principal of the Funded and Unfunded Indebtedness of Foreign Governments to the United States, the Accrued and Unpaid Interest Thereon, and Payments on Account of Principal and Interest, as of June 30, 1931*

Country	Date Funded	Total indebtedness (Payments on principal deducted)	Total Payments Received	Funded Indebtedness			Unfunded Indebtedness <sup>1</sup>		
				Indebtedness Principal (net)	Payments on Account Principal	Interest	Indeb'tness Principal (net)	Payments on Account Principal	Interest
Armenia*		\$11,959,917					\$11,959,917		
Austria	May 8, 1930	23,752,217	\$862,668	\$23,752,217	\$826,668				
Belgium	Aug. 18, 1925	400,680,000	52,191,273	400,680,000	17,100,000	14,490,000	\$2,057,630	\$18,543,642	
Cuba			12,286,751				10,000,000	2,286,751	
Czechoslovakia	Oct. 13, 1925	*167,071,023	18,304,178	167,071,023	18,000,000			304,178	
*Estonia	Oct. 28, 1925	16,466,012	1,248,432	13,830,000		1,246,990		1,441	
Finland	May 1, 1923	8,604,000	2,954,685	8,604,000	396,000			309,315	
France	Apr. 29, 1926	3,863,650,000	486,075,891	3,863,650,000	161,350,000	38,650,000	64,689,588	221,386,302	
Great Britain	June 19, 1923	4,398,000,000	1,911,798,298	4,398,000,000	202,000,000	1,149,720,000	202,181,641	357,896,657	
Greece	May 10, 1929	31,516,000	3,091,936	31,516,000	981,000	948,860	2,922	1,159,153	
Hungary	Apr. 25, 1924	1,908,560	468,466	1,908,560	73,995	393,717		753	
Italy	Nov. 14, 1925	2,004,900,000	97,584,421	2,004,900,000	37,100,000	2,521,250	364,319	57,598,852	
Latvia	Sept. 24, 1925	6,888,664	634,166	6,888,664		503,337		130,828	
Liberia			36,471					26,000	10,471
Lithuania	Sept. 22, 1924	*6,197,682	1,128,580	6,197,682	234,783	892,250		1,546	
Nicaragua		290,627	168,783				290,627	141,221	27,561
†Poland	Nov. 14, 1924	206,057,000	22,646,297	177,485,000	1,287,297	19,310,775		2,048,224	
Rumania	Dec. 4, 1925	*63,860,560	4,761,945	63,860,560	2,700,000		1,798,632	263,313	
Russia*		192,601,297	*8,748,878				192,601,297	8,748,878	
Yugoslavia	May 3, 1926	61,625,000	2,588,771	61,625,000	1,225,000		727,712	636,059	
		11,466,028,562	2,627,580,897	11,229,968,706	443,310,743	1,230,926,551	204,851,842	281,989,667	671,353,934

\*Accrued interest on funded debt (see note 2 below), \$2,636,012. †Accrued interest on funded debt (see 2 below), \$28,572,000.

<sup>1</sup>Payments of governments which have funded were made prior to the dates of the funding agreements. Unfunded indebtedness is exclusive of accrued and unpaid interest thereon.

<sup>2</sup>Accrued and unpaid interest on funded debts due to exercise of options to pay specified amounts over first 5 years in lieu of total amounts due, for which bonds similar to those originally issued under funding agreement will be given upon expiration of the options for the full amount deferred.

<sup>3</sup>Difference between principal of funded debt and amount here stated represents deferred payments provided for in the funding agreements, for which gold bonds of the respective debtor governments have been or will be delivered to the Treasury.

<sup>4</sup>Increase over amount funded due to exercise of options to pay one-half of interest due on original issue of bonds in bonds of debtor governments.

<sup>5</sup>Represents proceeds of liquidation of financial affairs of Russian Government in this country.

<sup>6</sup>The United States does not recognize the Governments of Russia or Armenia.



# Some Important Facts in the Foreign Debt Settlements

by Hon. Andrew W. Mellon

**D**URING the war the United States made loans to the Allies largely to assist them in the purchase of supplies in the United States. After the armistice the United States continued to make advances to the Allies to complete their contracts in the United States and to purchase food and surplus war supplies from the United States. Relief was also extended to a number of the smaller nations largely born of the war. At the conclusion of the war period the Treasury held the obligations of some 20 nations, in general payable on demand with interest at 5 per cent per annum.

The world was in a state of financial disorder. No nation could have paid its debt had we demanded it. Most could not even pay the interest rate of 5 per cent called for by their obligations. Only with time and more settled conditions did the possibility of adjustment arise.

Recognizing the fact that our debtors could not pay on demand, Congress originally authorized debt funding on not longer than a 25-year basis and at not less than 4½ per cent interest. Subsequently, when it was apparent that this basis of settlement was beyond the capacity of most of the debtors, the American Debt Commission was given general authority to recommend settlements to Congress.



Since foreign debt settlements do not seem to be clearly understood, I wish to mention some rather elemental facts. The obligations held by the Treasury generally call for payment on demand, and such payment can not be made. We must find practical terms. Now, if we are owed \$62 and payment is made today, we receive the full value of our loan. If payment is made at the rate of \$1 a year for 62 years without interest we would be conceding a part of the debt. What this concession amounts to can be variously estimated, depending on the rate of discount arbitrarily taken. If we use 4¼ per cent, the present value of a \$1 annuity for 62 years is a little over \$21; if we use 3 per cent, its present value is \$28. If, however, instead of \$1 a year for 62 years without interest we should charge interest at the cost of money to us, we get the full value of the loan, since we could borrow the \$62 today, pay interest on the borrowing, and repay the principal as annuities are received. From the United States standpoint, therefore, the question of whether a particular settlement represents a reduction in the debt depends on whether the interest charged over the entire period of the agreement is less than the average cost to us of money during that period. The flexibility in debt settlements is found in the interest rate to be charged.

The situation of each debtor nation is particular—that is, its capacity to pay is not the same as the capacity of some other nation. It has been felt by the Debt Commission, however, that repayment of principal is essential

in order that the debtor might feel that it had paid its debt in full and that we might know that we had our capital returned to us. The commission felt, therefore, that no funding should be made which did not repay the principal, and thus we have maintained the integrity of international obligations. Adjustment to the capacity of each case is made in the interest to be paid over the period of the agreement.

Great Britain was the first nation to recognize the desirability of putting its house in order. Great Britain owed some \$4,600,000,000 of principal and interest on its demand obligations. The American Debt Commission recommended a settlement on the basis of principal payments over a 62-year period, with interest at the rate of 3 per cent per annum for the first 10 years and 3½ per cent thereafter. Congress has approved the settlement. Taking into account the current interest rate when the settlement was made, the British agreement does not represent payment in full. If we figure the present value of the settlement at 4¼ per cent we canceled 20 per cent of the debt. The settlement was, however, entirely based on our estimation of Great Britain's capacity to pay. It is a precedent for the recognition of the principle of capacity to pay and is not a formula to control other cases of substantially less capacity.

As other nations have approached the American Debt Commission for a funding of their debts, it has been the position of the American Commission that since England represents the strongest of its debtors America would not ask heavier terms than those offered by England.

Generally speaking, our foreign indebtedness may be divided into two general classes—advances to carry on the war and advances after the war for relief and for the stabilization of Europe. Among the nations in the first class are included England, France, Italy, Belgium, Russia, and Serbia, although loans were made after the armistice. In the second class are the countries on the Baltic Sea, Finland, Lithuania, Latvia, Estonia, and Poland; the former enemy countries of Austria and Hungary; and the Balkan countries of Czechoslovakia, Rumania, and Greece.

The general plan applied to the settlement of the second class has been the British-American basis, with easier treatments in the earlier years depending upon the particular circumstances of the nation involved.



To the original principal of the Italian debt of \$1,648,000,000 was added interest at 4¼ per cent per annum to December 15, 1922, the date of the British settlement, and at 3 per cent per annum to the date of the new settlement, making a total to be funded of \$2,042,000,000. Repayment of the new principal is made on the same scale as on the British-American basis, with the exception that in the first five years there is a slight modification. To meet Italy's capacity to pay, interest rates during the

period of the funding agreement after the first 5 years have been fixed during successive 10-year periods at one-eighth of 1 per cent, one-fourth of 1 per cent, 1 per cent, and 2 per cent for the last 7 years. The interest rates recognize the quite material difference between Italy and other debtor countries with whom negotiations for settlement have been made. Italy has no natural resources and no productive colonies. Its balance of trade has always been adverse; a large part of the country is mountainous and it must import food for its rapidly increasing population. Coal, iron, copper, cotton, oil and other raw materials have to be imported. The standard of living and the taxable capacity of its people are extremely low. The assets of Italy are but the labor of its people and its water power.

No better example of the equitable principle of capacity to pay which must apply to a debt settlement can be given than in the case of Italy.



In its negotiations for the funding of the debt, the American Debt Commission has been forced to consider these facts; No nation, except by the pressure of public opinion and the necessities of its own credit, can be compelled to pay a debt to another nation. An insistence on a funding agreement in excess of the capacity of the nation to pay would justify it in refusing to make any settlement. None can do the impossible. If the debtor is to be able to pay and if the creditor is to receive anything, a settlement fair to both countries is essential. It follows that those who insist upon impossible terms are in the final analysis working for an entire repudiation of the debts. The only other alternative which they might urge is that the United States go to war to collect.

Europe is our largest customer. Unless the finances of Europe can be restored, her currency placed on a sound basis, and her people able to earn and spend, this country will not be able to dispose of its surplus products of food, materials, and goods.

The countries of Europe must be restored to their place in civilization. In this process of reconstruction certain essentials have to be met; First, the budgets must be balanced. This is a domestic question for each nation to solve. Second, payments coming due in the future must be ascertained. Interallied debts constitute the principal item in this essential, and in order that their settlement be effective the terms must be definite in amount and time and within the capacity of the debtors. The American Commission has not recommended settlements of the debts to profit those who wish to loan money abroad. It is possible, since any payment necessarily involves a strain on the debtor country, that the insistence on impossible terms

which would justify a refusal of the debtor to fund, might be more acceptable to the international bankers. But the settlements are made in the real interests of those American producers who must have a foreign market able to pay. The American producer needs these debt settlements.

The capacity of a nation to pay over a long period of time is not subject to mathematical determination. It is and must be largely a matter of opinion, but we have been fortunate in the constitution of the American Debt Commission to have a representation from the administration, from Congress, and from private life, and from both political parties. We have facilities to acquire information through the State Department, the Treasury, and the Department of Commerce. We bring a varied experience to the consideration of the debt settlements, and our recommendations are unanimous. While some may believe our recommendations too lenient and others too harsh, I know that it is the honest judgment of the commission that they are just settlements in the real interests of our country.

In conducting negotiations for settling the war debts we met with criticism from two extremes. One body of opinion would have us forgive entirely the debts because the money was loaned during or immediately after a war against a common enemy. Those who maintain such a position fail to recognize the responsibility of the representatives of a government to its citizens.

Public officials, whether in the legislative or executive branch of the Government, are essentially trustees. They are trustees for the citizens of their own country. They are not free to give away what he will with his own property. A public official, however, must keep firmly in view that he is dealing not with his own property but with property intrusted to his care by the citizens of his country.

Moreover, those who urge a complete forgiveness of debts ignore entirely the effect upon the country whose debt is forgiven. All self-respecting people desire to discharge their obligations. This is true of nations as of men.

At the other extreme are those who insist that we should collect the full principal and interest of the debts. In its final analysis the maintenance of this position could but reach the practical result that nothing would be collected, since the full payment of the debt is beyond the capacity of the debtor. While a trustee may not give trust money away, while he may not even be generous at the cost of those for whom he is trustee, it is equally true that a trustee must manage the trust with business intelligence. Any trustee would be derelict in the performance of his duty if by demanding the impossible he should lose the possible.—*Extracts, see 21, p. 256.*

# An Estimate of the Amount of Cancellation Involved in the Final Debt Settlements

by **Drs. Harold G. Moulton and  
Leo Pasvolksy**

**T**HE total amount of cash advances made by the Treasury under the Liberty Bond Acts aggregated \$9,598,236,575.45. In addition foreign governments were indebted to the Treasury for obligations contracted in the following ways: (1) through the purchase of surplus war supplies; (2) through the receipt of relief credits; (3) through the purchase of flour held by the United States Grain Corporation; and (4) for credits extended by the United States Shipping Board. The combined total of the cash advances and the other obligations amounted to the sum of \$10,338,058,352.20, exclusive of accrued interest.

This money was loaned to 20 different countries, of which 16 were in Europe. Of the non-European borrowers, Armenia received \$11,959,917.49. Liberia received \$26,000. Cuba borrowed \$10,000,000 and has already repaid it. Nicaragua purchased on credit \$166,604.14 worth of war supplies and has so far repaid about one-half\* of this sum.

Of the European debtors, Austria has obtained a postponement of any considerations of her debt, amounting to \$24,055,708.92, until the year 1942. Greece\* with a total debt of \$15,000,000 and Russia with obligations amounting to \$192,601,297.37 have as yet taken no steps towards the funding of their indebtedness. The other 13 European debtors have concluded debt-funding agreements, but as previously noted the agreements with France\* and Yugo-Slavia\* have not as yet received final ratification.

The interest on these obligations prior to the dates at which they were definitely funded has been added to the principal. Although at the time the original loans were granted the interest rate was nominally 5 per cent, at the time of the British debt-funding negotiations the rate of accrued interest was definitely fixed at 4.25 per cent, the rate at which the United States Government floated its later Liberty Loans.

In the case of all the other settlements the rule was adopted that the rate of accrued interest should not exceed that laid down in the settlement with Great Britain. Arrears of interest were, therefore, generally calculated at the rate of 4.25 per cent up to December 15, 1922, and at the rate of 3 per cent from then until the date of the various settlements. This latter rate was in accord with the rate Great Britain had been paying on her debt, since December 15, 1922. The original prin-

cipal plus the accrued interest became, with minor adjustments, the principal of the funded debt.

The rate of interest is practically identical in nine of the thirteen adjustments, namely 3.3 per cent. It is 1.8 per cent for Belgium, 1.6 per cent for France, 1.0 per cent for Yugoslavia, and 0.4 per cent for Italy.

To estimate the amount of the cancellation that has occurred it is necessary to compare the amount of the debt prior to funding with the present value of the actual settlements. The present value of the settlements is the sum which in 62 years, at a given rate of interest, would yield a total equal to the principal and interest payments called for by the various agreements. The amount of the present value will, however, obviously vary, depending upon whether interest is computed at 5 or 4.25 per cent.

In the case of commercial obligations between private parties, the rate originally stipulated would, of course, be regarded as the one and only rate to be considered. But in the case of the war loans, it was taken for granted that 5 per cent was merely a provisional rate and subject to reconsideration at the time of funding operations. In view of the fact that the later Liberty Loans of the United States Government were floated at 4.25 per cent, Congress, in the act creating the Debt Commission, fixed 4.25 per cent as the minimum, though not necessarily the actual, rate at which the obligations should be refunded.

The present values of the funded settlements on the basis of 4.25 per cent interest rate, and the consequent percentages of cancellation is the basis used by the Debt Commission in reporting to Congress the results of its negotiations.

For the Continental debtors combined, the cancellation on this basis is 58 per cent; and for Great Britain it is 19.7 per cent. The cancellation on the aggregate amount of the 13 debts works out at 43 per cent.

In the above computations cancellation has been considered as the reduction from the amounts which the United States Treasury would have received if the debt settlements had been made strictly on the terms prescribed by Congress. Cancellation may, however, be considered as the difference between the rates of interest at which the various debts have been funded and the cost of borrowing to the Treasury during the period of payments.

No one, of course, can predict with any degree of certainty the average rate of interest that the Treasury will have to pay during the next 62 years. However, Secretary Mellon considers that the average cost of Treasury borrowing during this period ought to be in the neighborhood of 3 per cent. On this basis the cancellation on the aggregate indebtedness works out to as low a figure as 20 per cent.—*Extracts, see 20, p. 256.*

\*See table on page 230 for final status.



# The Story of German Reparation Settlements - -

1919-1931

## 1919

ON June 28, the Treaty of Versailles was signed. The treaty provided for a Reparation Commission to fix the total amount of reparation debt, the work to be completed by May 1, 1921. The United States did not ratify the Treaty of Versailles.

## 1920

ON July 16, the Allied Governments adopted what is known as the Spa Protocol, under which the percentage of reparations each nation was to receive was agreed upon.

## 1921

ON April 27, the Reparation Commission completed its report in which the amount of damages claimed against Germany was fixed at 132 billion gold marks. To this was added 4 billion gold marks to pay the cost of the army of occupation, bringing the grand total up to 136 billion gold marks. Germany, during the two years since the armistice, had been making certain payments to the Allies and the value of these payments was credited to Germany against the total.

## 1922

ON December 29, after European governments had disagreed as to the amount of reparations Germany should pay and the manner and method of making payment and had made unofficial suggestions that the United States assist in solving the problem, Charles Evans Hughes, U. S. Secretary of State, in a speech at New Haven, Conn., indicated that the American Government would have no objection to the selection of American experts to act as individuals in working out a reparation plan.

## 1923

ON October 12, Lord Curzon, British Foreign Secretary, sent an inquiry to Secretary Hughes in which he asked whether upon the request of the foreign governments, the American Government would assist in settling the reparations problem.

On October 15, Secretary Hughes, in reply to the Curzon note, stated that the United States would not officially participate nor appoint an American to participate unofficially. He added, however, that he had no doubt that competent American citizens would accept an invitation from the Reparations Commission to act on an advisory committee appointed by the Reparations Commission to make recommendations.

On November 20, the Reparations Commission adopted resolutions creating two committees of experts to determine Germany's capacity to pay.

December 21—The Reparations Commission appointed General Charles G. Dawes and Owen D. Young to serve as American experts on the First Committee of Experts, with General Dawes as chairman. Henry M. Robinson was appointed American member of the Second Committee of Experts.

## 1924

ON April 9, the First Committee of Experts submitted its report outlining a plan for handling the reparations problem which became known as "The Dawes Plan."

The Dawes Plan did not fix the total amount of the reparations Germany had to pay, but accepted the amount already specified by the Reparations Commission. Nor did it set a time limit within which Germany should be called upon to complete her payments.

It simply determined the maximum amount Germany would be able to pay annually for an indefinite period and set up the machinery for collecting that amount, under the direction of an Agent General of the Committee. The Dawes Plan provided also for a Transfer Committee to approve all reparations payments. This committee was empowered to suspend payments in foreign currency if such payments endangered the stability of Germany.

August 30—The Reparations Commission appointed Owen D. Young Agent General for Reparation Payments ad interim.

September 3—The Reparations Commission appointed Seymour Parker Gilbert, Agent General for Reparation Payments. Mr. Gilbert continued his work as Agent General until 1929.

## 1927

ON December 10, Mr. Gilbert, in his annual report, stated that experience had proven that until Germany had been given a definite task to perform on her own responsibility, the reparation question would not be solved.

## 1928

ON June 7, in an interim report, Mr. Gilbert urged the need of a new fixing of the German debt.

On December 4, Sir Esme Howard, British Ambassador at Washington, at the request of the interested foreign governments, called on President Coolidge to ask American participation in a conference to revise the Dawes Plan. President Coolidge promptly acceded to the request.

## 1929

ON January 19, the Reparations Commission appointed four members of the original Committee of Experts to



revise the Dawes Plan. As American experts the Commission appointed Owen D. Young and J. P. Morgan, with Thomas N. Perkins and T. W. Lamont as alternates.

On February 11, the Committee met in Paris to organize. Owen D. Young was chosen president.

On June 9, the Committee of Experts completed its work in Paris and reported a plan for permanent settlement of the Reparations problem.

On August 6, a conference of the governments met at The Hague to consider the report of the committee.

On August 31, after a period of tense negotiations, marked at times by bitterness, The Hague Conference reached an agreement on a revision of the distribution of payments among the creditor nations and fixed the date of the evacuation of the Rhineland as June 1, 1930.

The plan for settlement of the reparations problem approved by The Hague Conference became known as "the Young Plan."

The Young Plan fixed the total amount Germany should pay and a definite time within which payment should be completed. The total amount to be paid, as agreed upon, was \$26,000,000,000 and the period of payment 36 years, 1929-1965. The Transfer Committee and other organs of control were done away with and Germany was charged with an ordinary commercial obligation to make her reparation payments through the Bank for International Settlements which the Young Plan created.

Six hundred and twelve million marks per annum were to be paid unconditionally in foreign currencies. The rest of the reparation annuities were to be paid by Germany through deliveries in kind in limited amounts or in foreign currencies, subject to the right of Germany, at its own option, to suspend transfer of these payments in foreign currencies for a period not exceeding two years, during which a special advisory committee should meet, consider the situation and make recommendations to the interested governments.

Notice of transfer by Germany was not to be effective until 90 days after the notice issued, during which time Germany remained obligated to pay the whole annuity in foreign currency, except for the limited probation for deliveries in kind.

## 1931

GERMANY made her payments under the Young Plan, but in the Spring of 1931 informed the Bank for International Settlements that she could levy no more taxes and indicated she might have to ask for a postponement on some of her optional payments under the Young Plan.

Rumors of this probable request led to runs on German banks and it was at this period that President Hoover announced his plan for a moratorium.

## America's Agreement with Germany

THE indebtedness of the German Government to the United States is on account of the costs of the American army of occupation and the awards entered by the Mixed

Claims Commission, United States and Germany, in favor of American citizens and the United States. The payments from Germany on account of this indebtedness up to September 1, 1929, have been made under the provisions of the army cost agreement of May 25, 1923, and of the Paris agreement of January 14, 1925. The so-called Young plan became effective as of September 1, 1929, and superseded all previous agreements and arrangements covering payments by Germany on account of its obligations growing out of the war. Since the United States did not become a party to the so-called Young plan, it became necessary to negotiate a separate agreement with Germany for the satisfaction of American claims. An agreement was reached with the German Government executed on June 23, 1930, under the terms of which there are to be paid to the United States an average annuity of 66,100,000 reichsmarks for a period of 37 years and a flat annuity of 40,800,000 reichsmarks for 15 years thereafter.

Total army cost charges.....	\$292,663,435.79
Credits to Germany.....	44,797,790.30

247,865,645.49

### Payments received:

Under the army cost agreement of May 25, 1923, which was superseded by agreement of Jan. 14, 1925.....	\$14,725,154.40
Under Paris agreement of Jan. 14, 1925.....	39,203,725.89
Under debt agreement of June 23, 1930.....	9,031,468.94
	62,960,349.23

Balance due as of Oct. 1, 1930.....	\$184,905,296.26
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The total payments made by Germany on account of mixed claims up to September 30, 1930, aggregated \$46,791,964.23.

It is not possible at this time to furnish an accurate statement of the amount of payments to be made on account of the awards of the Mixed Claims Commission for the reason that the commission has not yet completed its work.

## Financial Costs of the World War

ACCORDING to the "Statistical Survey of the World War" prepared by Col. Leonard P. Ayres, Chief, Statistics Branch, General Staff, U. S. Army, the cost of the World War to the Nations involved up to April 30, 1919, was: (in billions of dollars.)

**Allied Powers:** Great Britain and Dominions, 38; France, 26; United States, 22; Russia, 18; Italy, 13; Belgium, Rumania and Yugoslavia, 5; Japan and Greece; 1. Total Allies, 123.

**Central Powers:** Germany, 39; Austria-Hungary, 21; Turkey and Bulgaria, 3. Total Central Powers, 63. Grand total all countries, \$186,000,000,000.

According to the annual report of the Secretary of the Treasury 1930, the total expenditures of the United States on account of the war amounted to \$51,546,619,440.72, which includes post-war costs attributable to the war. Receipts, including payments on foreign debts, sale of surplus material, etc., amount to \$4,483,046,569.99. Her assets, partly estimated, including sums owing for sale of surplus property and payments due on foreign debts, are given as \$9,189,664,380.37.

Deducting receipts and assets from total expenditures leaves the net war cost to the United States \$37,873,908,409.36.

# President Hoover's One Year Moratorium Plan - Developments To Date

## 1931

June 19—The following brief press statement, issued by President Hoover, furnished the first indication of the President's intention to move definitely toward relief of the world depression:

"Since my return from the Central West yesterday I have conferred with those leaders of both political parties who are present in Washington with respect to certain steps which we might take to assist in economic recovery both here and abroad.

"These conversations have been particularly directed to strengthening the situation in Germany. No definite plans or conclusions have yet been arrived at but the response which I have met from the leaders of both parties is most gratifying.

"Any statement of any plan or method is wholly speculative and is not warranted by the facts."

June 20—President Hoover, after conferring with the U. S. Senators and Representatives of both political parties who were in Washington issued a formal statement announcing his proposal for a year's suspension of payments on war debts and German reparations.

The President's statement follows:

"The American Government proposes the postponement during one year of all payments on intergovernmental debts, reparations and relief debts, both principal and interest, of course, not including obligations of governments held by private parties. Subject to confirmation by Congress, the American Government will postpone all payments upon the debts of foreign governments to the American Government payable during the fiscal year beginning July 1 next, conditional on a like postponement for one year of all payments on intergovernmental debts owing the important creditor powers.

"This course of action has been approved by the following Senators: Henry F. Ashurst, Hiram Bingham, Wm. E. Borah, James F. Byrnes, Arthur Capper, Simeon D. Fess, Duncan U. Fletcher, Carter Glass, William J. Harris, Pat Harrison, Cordell Hull, Wm. H. King, Dwight W. Morrow, George H. Moses, David A. Reed, Claude A. Swanson, Arthur Vandenberg, Robert F. Wagner, David I. Walsh, Thomas J. Walsh, James E. Watson; and by the following Representatives: Isaac Bacharach, Joseph W. Byrnes, Carl R. Chindbloom, Frank Crowther, James W. Collier, Charles R. Crisp, Thomas H. Cullen, George P. Darrow, Harry A. Estep, Willis C. Hawley, Carl E. Mapes, J. C. McLaughlin, Earl C. Michener, C. William Ramseyer, Bertrand H. Snell, John Q. Tilson, Allen T. Treadway and Will R. Wood. It has been approved by Ambassador Charles G. Dawes and by Mr. Owen D. Young.

"The purpose of this action is to give the forthcoming year to the economic recovery of the world and to help free the recuperative forces already in motion in the United States from retarding influences from abroad.

"The world wide depression has affected the countries of Europe more severely than our own. Some of these countries are feeling to a serious extent the drain of this depression on national economy. The fabric of intergovernmental debts, supportable in normal times, weighs heavily in the midst of this depression.

"From a variety of causes arising out of the depression such as the fall in the price of foreign commodities and the lack of confidence in economic and political stability abroad there is an abnormal movement of gold into the United States which is lowering the credit stability of many foreign countries. These and the other difficulties abroad diminish buying power for our exports and in a measure are the cause of our continued unemployment and continued lower prices to our farmers.

"Wise and timely action should contribute to relieve the pres-

sure of these adverse forces in foreign countries and should assist in the reestablishment of confidence, thus forwarding political peace and economic stability in the world.

"Authority of the President to deal with this problem is limited as this action must be supported by the Congress. It has been assured the cordial support of leading members of both parties in the Senate and the House. The essence of this proposition is to give time to permit debtor governments to recover their national prosperity. I am suggesting to the American people that they be wise creditors in their own interest and be good neighbors.

"I wish to take this occasion also to frankly state my views upon our relations to German reparations and the debts owed to us by the allied Governments of Europe. Our government has not been a party to, or exerted any voice in determination of reparation obligations. We purposely did not participate in either general reparations or the division of colonies or property. The repayment of debts due to us from the Allies for the advance for war and reconstruction were settled upon a basis not contingent upon German reparations or related thereto. Therefore, reparations is necessarily wholly a European problem with which we have no relation.

"I do not approve in any remote sense of the cancellation of the debts to us. World confidence would not be enhanced by such action. None of our debtor nations have ever suggested it. But as the basis of the settlement of these debts was the capacity under normal conditions of the debtor to pay, we should be consistent with our own policies and principles if we take into account the abnormal situation now existing in the world. I am sure the American people have no desire to attempt to extract any sum beyond the capacity of any debtor to pay and it is our view that broad vision requires that our government should recognize the situation as it exists.

"This course of action is entirely consistent with the policy which we have hitherto pursued. We are not involved in the discussion of strictly European problems, of which the payment of German reparations is one. It represents our willingness to make a contribution to the early restoration of world prosperity in which our own people have so deep an interest.

"I wish further to add that while this action has no bearing on the conference for limitation of land armaments to be held next February, inasmuch as the burden of competitive armaments has contributed to bring about this depression, we trust that by this evidence of our desire to assist we shall have contributed to the good will which is so necessary in the solution of this major question."

June 21—The State Department announced that President Hoover had made a request of the German Government for an accurate report on conditions in Germany and had received a personal and confidential reply from President von Hindenburg.

June 22—Prime Minister Ramsay MacDonald announced in London that the British Government subscribed "whole-heartedly to the principle of President Hoover's proposal and is prepared to cooperate in the elaboration of the details with a view to giving it practical effect without delay."

U. S. Ambassador John Work Garrett cabled the State Department from Rome that the acceptance, by the Italian Government, of President Hoover's proposal was "Cordial and complete, without any reservation of a political nature."

June 22—Philip Snowden, British Chancellor of the Exchequer stated in a speech in the House of Commons—"The more consideration we give to the President's

declaration the more it seems to us that that declaration constitutes a very great gesture on the part of the United States and it will be a thousand pities if Europe does not respond to it in the same spirit. The beneficial effect of the proposal may be lost unless steps are taken by all countries concerned to give it prompt and practical effect."

Mr. Snowden stated, also, that in inviting the Dominion Governments and the Government of India to join in the Hoover proposal, the United Kingdom would give them the right to postpone the whole amount of their war debt payments for a year from July 1, 1931.

June 24—The State Department received a note from the French Government declaring itself in agreement with the purpose of the Hoover proposal, but suggesting that care be taken that there should be no break in certain arrangements under the Young Plan Agreement.

June 26—Prime Minister Bennett of Canada announced in the House of Commons that although the suspension of reparations payments would deprive the Canadian treasury of something over \$4,000,000, and although Canada's war debts, pensions and other war legacies represented 40 per cent of her annual expenditures, that the Canadian Government was nevertheless prepared to support the Hoover proposal.

The U. S. State Department announced that the French note of June 24 showed "a gratifying cordiality" toward the Hoover proposal and that U. S. Secretary of the Treasury, Andrew W. Mellon, then in Europe, and U. S. Ambassador Walter Edge were engaged in direct discussions with the French Government.

June 27—The U. S. State Department was officially informed that Poland and Czechoslovakia accepted the Hoover proposal.

June 29-30—Austria and Belgium formally accepted the proposal and the U. S. State Department announced that all the Governments involved had accepted the Hoover proposal except France, with which negotiations were continuing.

July 1—The U. S. State Department made public a memorandum presented to the French Government by Secretary Mellon and Ambassador Edge on instructions from the State Department.

July 4—The State Department made public a memorandum of America's suggestions to France as a basis for agreement.

July 5—The German Chancellor Dr. Heinrich Brüning issued the following statement:

"In view of the fears which have sprung up in some circles that the amounts released in the German budget by the relief from reparations payments might be used to increase armaments, I declare that an increase in the appropriation for the army and navy during the holiday year has never been contemplated nor will it take place. The aggregate alleviations accruing to Germany from the Hoover Plan are required and will be used in their entirety to cover the deficits in revenue which are to be expected, to consolidate financial conditions, and to save German economic life."

July 6—President Hoover issued a formal announcement that the American proposal had been accepted by all the important creditor governments as follows:

"I am glad to announce that the American proposal for one year's postponement of all intergovernmental debts and reparations has now been accepted in principle by all of the important

creditor governments. The terms of acceptance by the French Government are, of course, subject to the approval of the other interested powers, for whom the American Government naturally cannot speak. Without going into technical terms, while certain payments are made by Germany for reparations account, the substance of the President's proposal is retained as the sums so paid are immediately reloaned to Germany.

"The technical difficulties arising from many complicated international agreements, which involve the aggregate payment between governments of over \$800,000,000 per annum are now in the course of solution by the good-will and earnest cooperation of governmental leaders everywhere.

"The American part of the plan is, of course, subject to the approval by Congress, but I have received the individual assurances of support from a very large majority of the members of both Senate and House, irrespective of political affiliations.

"The acceptance of this proposal has meant sacrifices by the American people and by the former Allied Governments, who are with all others suffering from world-wide depression and deficits in governmental budgets. The economic load most seriously oppressing the peoples of Germany and Central Europe will be immensely lightened.

"While the plan is particularly aimed to economic relief, yet economic relief means the swinging of men's minds from fear to confidence, the swinging of nations from the apprehension of disorder and governmental collapse to hope and confidence of the future. It means tangible aid to unemployment and agriculture.

"The almost unanimous support in the United States is again profound evidence of the sincere humanity of the American people. And in this year, devoted to economic upbuilding, the world has need of solemn thought on the causes which have contributed to the depression. I need not repeat that one of these causes is the burdens imposed and the fears aroused by competitive armament. Contemplation of the past few weeks should bring a realization that we must find relief from these fundamental burdens which today amount to several times the amount of intergovernmental debts."

July 6—The State Department made public the text of the agreement reached between America and France, as follows:

After exchange of views the French Government states that it is in agreement with the United States on the essential principle of President Hoover's proposal and on the following propositions which may be expressed thus:

1. The payment of intergovernmental debts is postponed from July 1st, 1931 to June 30th, 1932.
2. However, the Reich will pay the amount of the unconditional annuity. The French Government agrees insofar as it is concerned, that the payments thus made by the Reich shall be placed by the B.I.S. in guaranteed bonds of the German railways.
3. All suspended payments shall be subject to interest in accordance with the conditions suggested by the American Government payable in ten annual installments beginning with July 1st, 1933.
4. The same conditions shall apply to the bonds to be issued by the German railroads.

On the three points which it is recognized do not directly concern the American Government, the French Government makes the following observations:

A. A common action by the principal central banks acting through the medium of the B.I.S. shall be organized to assist the countries of Europe which would be particularly affected by the postponement of the payment as proposed.

B. A preliminary understanding should take place between France and the B.I.S. in order that France shall not supply the guarantee fund provided for in the Young Plan in the event of a moratorium except by monthly payments in accordance with the acknowledged rights of the creditor states after the actual transfer of payments by Germany.

C. The question of deliveries in kind and the various modifications which will become necessary as a result of the application of the American proposal and the present agreement shall be studied by a committee of experts named by the interested powers which shall reconcile the material necessities with the spirit of President Hoover's proposal.



France reserves the right to request of the German Government indispensable assurances concerning the utilization for exclusively economic purposes of the sums freed to the Reich budget.

July 7—The British Government called a conference of the interested governments to meet promptly in London for the purpose of working out the details of the American plan.

President Hoover received the following cablegram from President von Hindenburg of Germany:

"Since the Paris negotiations have now arrived at a conclusion and the one-year moratorium proposed by you has begun, I desire to express the thanks of the German people to you and to the American people. My most sincere wish is that owing to your initiative the whole world may be led into a new era of peaceful and confident cooperation."

President Hoover sent the following reply to President von Hindenburg:

"I have received with great appreciation your communication of July 7. It is my sincere hope and expectation that this proposal which has been presented to and accepted by the nations of the world will revive confidence and promote prosperity among all peoples."

July 12—The State Department issued the following statement:

"The heads of the principal European Central Banks including the Bank of England and the Bank of France are meeting tomorrow morning in Basle, Switzerland, with the Bank of International Settlements. They will no doubt consider the German banking crisis. Obviously any plan for a banking solution of the situation must originate from these banks which are on the ground." \* \* \*

July 19—The German Government issued a decree against the flight of capital from Germany and against tax evasion.

July 20—The conference of the seven nations principally interested in the proposed moratorium met in London at the call of Prime Minister MacDonald. The nations represented were Great Britain, the United States, France, Italy, Belgium, Japan and Germany.

July 21—The American Proposal as sent to Secretaries Stimson and Mellon at London was prefaced with the statement that—"The essence of the problem is the restoration of confidence in Germany's economic life, both in Germany and abroad."

The Committee of Finance Ministers appointed by the London Conference reported its recommendations.

July 23—The London conference completed its work and adjourned.

President Hoover issued the following statement:

"The London conference has laid sound foundations for the establishment of stability in Germany.

"The major problem is one affecting primarily the banking and credit conditions and can best be solved by the voluntary cooperation of the bankers of the world rather than by governments with their conflicting interests. Such a basis of cooperation is assured.

"The program supplements the suspension of intergovernmental debts already in effect. The combined effect should enable the German people with their resources, industry and courage, to overcome the temporary difficulties and restore their credit.

"The program contributes to expedite recovery from worldwide depression through the overcoming of the most important elements in the crisis affecting Central Europe.

"The world is indebted to President MacDonald, Laval, and Breuning, to Messrs. Stimson, Mellon, Grandi, Francoqui and other governmental representatives in this conference. The conference has demonstrated a fine spirit of conciliation and consideration amongst nations that will have lasting benefits in establishment of stability."

July 24—The Bank for International Settlements ac-

cepted the invitation of the London Conference to set up a committee of representatives nominated by the central banks of the nations interested to study the German financial situation.

July 30—George L. Harrison, governor of the Federal Reserve Bank of New York, announced the appointment of Albert H. Wiggin, Chairman of the governing board of the Chase National Bank of New York City as the American representative of the committee to be set up by the Bank of International Settlements.

August 2—The Bank for International Settlements announced that the committee of bankers would meet on August 8. The nations represented on the committee are Belgium, Great Britain, the United States, France, Germany, Holland, Italy, Japan, Sweden and Switzerland.

August 8—The Bankers Committee met at Basle, Switzerland and organized. Mr. Wiggin was elected chairman. The Committee announced a series of hearings and settled down to its studies.

August 19—The Wiggin Committee, as the Bankers Committee promptly came to be called, made public its recommendations, from which extracts are given below.

The next official step awaiting the Moratorium is ratification by Congress which meets this year on Dec. 7. In the meantime, the 1931-32 holiday for inter-government debt payments went into effect on July 1, 1931. Amounts involved for the United States, Great Britain, France, Italy and Germany are stated in the table on page 239.

September 17—In an interview in New York upon his return from Europe, James W. Gerard, Ambassador to Germany under President Wilson, voiced the first criticism, following the declaration of the moratorium, of Germany's appeal for leniency, Mr. Gerard said:

"The Germans have paid ten billion marks in reparations. Their public and private borrowings total about eighteen billion marks. So they are about eight billions ahead, but continue to complain about how poor they are.

"As a matter of fact, Germany is in apple pie order. I found that Germany is building stadiums and luxurious swimming baths on an unprecedented scale, and all sorts of magnificent housings on borrowed money. The balance of her funds have been lent to Russia.

"Therefore, I feel that it is time that the American bankers aided America. If we are to do business with Russia, let us do it directly and take the profits, and not indirectly through Germany.

"The New York bankers seem to be Europe-minded and not America-minded, and it seems to be easier for them to help Germany than America."



## Wiggin Committee Recommendations

THE body of the world's commerce—whose vitality was already low—has suffered a severe shock in one of its chief members. This has resulted in partial paralysis which can only be cured by restoring the free circulation of money and goods. We believe this can be accomplished, but only if the governments of the world will realize the responsibility that rests upon them and will take prompt measures to re-establish confidence. Their action alone can restore it.



We wish, however, to recall that, as we said at the outset, the German problem is part of a larger issue which deeply affects many other countries of the world. In this connection we wish to make two observations. The first is that in order to revive demand and thus put an end to the continued downward movement of prices—which is enclosing both the debtor and creditor countries in a vicious circle of depression—it is essential that the normal progress of investment of fresh capital should be resumed with a well-defined economic purpose in view, namely an increase in the purchasing power of the world.

Secondly, we would point out that the case of Germany provides a most forcible illustration of the fact that in recent years the world has been endeavoring to pursue two contradictory policies in permitting the development of an international financial system which involves the annual payment of large sums by debtor to creditor countries, while at the same time putting obstacles in the way of the free movement of goods.

So long as these obstacles remain such movements of capital must necessarily throw the world's financial balance out of equilibrium. Financial remedies alone will be powerless to restore the world's economic prosperity until there is a radical change in this policy of obstruction and international commerce—on which depends the

progress of civilization—is allowed to resume its natural development.

The clearly-defined and technical investigation to which we have confined our attention does not permit us to offer suggestions of a political character. But we have felt it to be our duty to point out the reasons why it is impossible for the present to suggest definite plans for securing to Germany long-term credits. We wish, however, to add that if a situation were brought about in which the confidence of the investing public in the future economic and political stability of Germany could be restored we are satisfied that the consolidation of part of her short-term debt and the provision of the additional working capital needed by her trade and industry would present no serious difficulties. There are many ways in which this object could be achieved. If we refrain from putting forward details of schemes to this end it is because of our conviction that action which lies outside our province must first be taken before any long-term German bonds, however well secured, can be sold.

We, therefore, conclude by urging most earnestly upon all the governments concerned that they lose no time in taking the necessary measures for bringing about such conditions as will allow financial operations to bring to Germany—and thereby to the world—sorely-needed assistance.—*Extracts, see 19, p. 256.*

### 1931-32 Payments Deferred Under Hoover Moratorium Plan

PAYMENTS OF GERMANY (In Millions of Dollars)		PAYMENTS DUE U. S. A.,		PAYMENTS DUE FRANCE		PAYMENTS DUE GREAT BRITAIN	
To France .....	195.7	By Austria .....	\$287,556	By Austria .....	\$ 208,639	By Germany .....	\$ 93,100,000
British Empire .....	93.1	Belgium .....	7,450,000	Greece .....	68,446	Czechoslovakia ..	686,176
Italy .....	43.3	Czechoslovakia ..	3,000,000	Lithuania .....	231,574	France .....	60,831,250
Belgium .....	23.7	Estonia .....	484,510	Poland .....	1,011,812	Italy .....	20,682,625
Rumania .....	2.9	Finland .....	313,120	Rumania .....	100,452	Greece .....	1,756,806
Yugoslavia .....	18.9	France .....	40,000,000	Czechoslovakia ..	392,000	Rumania .....	2,282,388
Greece .....	1.5	Great Britain .....	159,940,000	Yugoslavia .....	605,326	Portugal .....	1,703,275
Portugal .....	3.1	Greece .....	1,029,720	Germany .....	195,700,000	Yugoslavia .....	2,228,857
Japan .....	3.1	Hungary .....	67,635		\$198,318,249	Belgium .....	3,090,227
Poland .....	0.1	Italy .....	14,621,250	PAYMENTS DUE ITALY		Belgian Congo ..	1,231,224
Belgium .....	5.1	Latvia .....	201,690	By Czechoslovakia ..	\$ 297,013	Poland .....	2,919,900
United States .....	15.7	Lithuania .....	210,210	France .....	833,700	Estonia .....	340,655
		Poland .....	6,230,000	Poland .....	80,534	Austria .....	520,715
		Rumania .....	700,000	Rumania .....	118,350	Latvia .....	364,987
		Yugoslavia .....	225,000	Austria .....	247,931	Lithuania .....	155,727
		Germany .....	15,745,020	Bulgaria .....	3,212		
				Germany .....	43,300,000		
Total .....	406.2	Total .....	\$250,505,711	Total .....	\$ 44,880,740	Total .....	\$191,894,812

### A Glossary of Terms Used in this Number

**Amortization**—Extinguishing the principal of a debt by a series of payments.

**Deflation**—Abnormal decrease in the quantity of money or purchasing power of a community.

**Foreign Exchange**—The purchase and sale of foreign moneys.

**Funding**—Converting a debt into the form of bonds.

**Gold Reserve**—Reserve in gold securing bank notes and deposits.

**Gold Standard**—Monetary system the unit of which is maintained at the value of a certain weight of gold.

**Inflation**—Excessive increase in the quantity of money or purchasing power of a community.

**International Trade Balances**—Excess of imports over exports or of exports over imports.

**Liquidation**—Conversion into cash.

**Moratorium**—Legal postponement of payment of debts and obligations.

**Reparations**—Compensation payable for loss and damage.

**Stabilization**—Fixing and maintaining a currency on a gold basis.

# Should America Cancel

◀ PRO ▶

by **Albert H. Wiggin**

**T**HE most serious of the adverse factors affecting business is the inability of foreign countries to obtain dollars in amount sufficient both to make interest and amortization payments on their debts to us and to buy our exports in adequate volume.

From the middle of 1924 to 1929, we delayed the adverse effect of our high tariffs upon our exports by heavy buying of foreign bonds. The effect of this was to increase, year by year, the interest and amortization charges the foreign countries have to meet, and to bring about a congestion in our foreign bond market. Our alternative today is, therefore, either a reduction of our tariffs, or readjustment to our greatly reduced volume of exports. The burden of this readjustment, now under way, falls with particular weight upon agriculture. Farms are being abandoned. All our export interests are affected, including automobiles, copper, oil and many manufacturing lines. In time, we can work through it, producing less for export and more for the domestic market. A reduction in tariff, made in the interest, not of change but of stability, would still leave us our general protective tariff system.

Cancellation or reduction of the inter-allied debts has been increasingly discussed throughout the world. This question has an importance far beyond the dollar magnitude of the debts involved. Without commenting on the many arguments on both sides of the controversy and aside from the question of the justice of cancellation, I am firmly convinced it would be good business for our government to initiate a reduction in these debts at this time.—*Extracts, see 1, p. 256.*



by **U. S. Senator Copeland**

**O**NE of the transatlantic causes of our own economic depression, is the question which now holds the center of the stage—international debts and war reparations.

It is passing strange that the President of the United States has only just now awakened to the significance of this problem. Certainly it is not a new problem. It has seemed to me to be a matter which should have been dealt with effectively at the time our Congress was debating the foreign debt settlements.

When the President asked my attitude toward his proposal to postpone all intergovernmental debts, among other things I replied as follows:

"From the beginning of our discussions of war debts, I advocated their cancellation, conditioned on cancella-

tion of the German reparations, plus assurance as to material decrease in armaments. I received nothing but ridicule, even as late as the last session, from Senators who now appear to endorse your action. I congratulate you on receiving belated support for a project that in my opinion should have been proposed earlier, and which perhaps would have been proposed except for such opposition."

I shall undertake to explain why I hold this conviction, and what the debt problem has to do with our present-day distress.

In a debate with Mr. Paderewski, former President of the Polish Republic and naturally unfriendly to Germany, I asked him this question: "What would happen if there were an economic breakdown in Germany, with nationwide unemployment?" He shrugged his shoulders, threw up his hands, and said, Russia!"

It is terrible beyond words that individual initiative should be destroyed, the people made to work at unchosen tasks under the lash of authority, the normal marital relations broken down, the children made the property of the state, and religion crushed into the dirt. If such conditions must exist anywhere, I want them confined to the geographic boundaries of Russia.

I tremble to think what would happen if such a system should slop over into Germany, and Sovietism be imposed upon that people. How long would it be before the outlandish political views of Russia, if they were accepted in Germany—how long would it be before France, England, and perhaps our own United States would fall the victim to such doctrines?

Last year when I was in Germany I was much distressed over what seemed to me to be the makings of Bolshevism in that country. When there is placed, as there has been upon the railroads, for instance, of Germany a tax of \$160,000,000 a year—for 670,000,000 gold marks are the equivalent to that sum of money in our currency—when that amount of burden is placed upon the railroads, in addition to their normal taxes, it is not difficult to understand how impossible it is for these railroads to maintain their rolling stock, their roadbeds, and to establish rates which will make possible the movement of goods. If the sum of \$160,000,000 were placed upon American railroads, there would be a protest, in my judgment, which could be heard from Maine to California.

No matter what may be our ultimate conclusion regarding the question at issue, certainly every American is interested in the maintenance of orderly government in all the countries of Europe. I can think of no greater disaster than to have a breakdown in Germany. It certainly would be followed by a breakdown in countries farther west, and we might even have that distress come to us.

(Continued on page 242)

# Her Foreign War Debts?

→ CON →

by U. S. Senator Smoot

**I** SEE no occasion for any move to bring about cancellation of war debts owed to the United States by foreign governments. Talk about wiping out these obligations is both unwise and unfortunate at this time.

The American people are already paying an unproportionate share of the cost of the war, and they should not be burdened with taxes to pay debts that are actually owed by other countries.

Foreign governments owe the United States a total of \$11,641,508,460 as of November 15, 1930. During the fiscal year of 1930 the Treasury received payments on these obligations amounting to \$239,565,807.

Of this total, \$97,634,287 was applied to reduction of principals and \$141,931,519 represented interest. This is slightly in excess of the payments made during the fiscal year 1929, but it amounts to a very small fraction of the debt foreign nations owe to the United States.

While Europe was paying that \$239,565,807 on account of war debts to this country American taxpayers furnished \$1,397,020,431 for payment on our own public debt. Interest during that period amounted to \$659,347,613 and the remainder was used to reduce the principal.

This means that the United States paid nearly eight times as much on the principal of its war debt as it received from Europe on that account and more than four times as much interest as it received.

This comparison is significant because of the close relationship of our public debt owed to us by these foreign governments. Funds raised by our Government were lent to foreign nations to prosecute the war. Approximately 70 per cent of the American debt remaining to be paid represents the debts of foreign governments to us.

Assuming that these governments will pay their debts as at present funded, taxpayers of this country need only to make up a balance of \$4,543,799,839 to entirely liquidate the debts of the United States. Should European war debts be canceled, the entire burden of paying the \$16,185,308,299 debt would fall upon American taxpayers.

The United States Government has been lenient with the debtor nations of Europe. At the time funding agreements were entered into most of the debts were drastically reduced. The settlement with France was at about 50 cents on the dollar, and Italy is paying only 28 cents for every dollar originally owed. Our Government cannot be justly accused of driving a sharp bargain in the face of these facts.

Settlements were made according to the ability of each government to pay. In making the funding agreements we took into consideration the debtor nations' resources, their national income, their foreign commerce, and every

other factor which enters into a country's solvency. In no case was a government asked to pay more than it is able to pay without jeopardizing its financial stability.

This method of funding reduced interest charges in some cases to extremely low figures. Belgium was allowed an approximate interest rate of 1.790 per cent; France, 1.640 per cent; Italy, 0.405 per cent; and even Great Britain, the strongest of the debtor nations, pays only 3.306 per cent.

Besides giving these Governments such easy terms the United States allows them 62 years in which to pay. No more liberal terms could be asked for.

Cancellation of these debts would impose a great part of the burden of liquidating the war upon taxpayers of the United States. Someone must pay the debt. Unless the allied nations continue to draw reparations from Germany and to pay their obligations to America, the cost of the world's greatest conflict will fall upon the people who were least responsible for it.

The Treasury places the net cost of the World War to the United States at \$37,873,908,499. There is no reason why this cost should be augmented by assuming responsibility for Europe's debts. Taxpayers of this country have provided nearly \$1,000,000,000 per year for payment on the national debt, in addition to interest, which, when the debt stood at its highest point, amounted to more than \$1,000,000,000 annually.

No other country in the world has made a showing that approaches this. The Government has made this tremendous effort with a view of reducing interest charges and not for the purpose of relieving foreign nations of their obligations.

The settlement with Great Britain calls for annual average payments equivalent to 4.6 per cent of the total British budget expenditures. Belgium devotes only 3.5 per cent of its budget expenditures for this purpose and Italy 5.17 per cent. Payments on the principal and interest of the American national debt took 3.4 per cent of our Budget last year.

How can anyone ask the United States to continue this heavy drain upon its taxpayers indefinitely for the sole benefit of taxpayers in Europe? This Government asked and received no spoils from the war. It spent billions of dollars and lost thousands of lives for the sake of reestablishing peace. Now that peace has been restored, it is manifestly unfair to expect America to shoulder the financial burdens incurred by other nations interested in the same cause.

I regret to find that some Americans who do not feel the pinch of taxation on meager incomes are advocating a transfer of Europe's debts to our own people. I propose to resist their efforts and to stand firmly against any further cancellation of war debts.—*Extracts, see 10, p. 256.*



### Copeland Cont'd

The question of reparations is a two-sided question, of course; and some time it will be seriously discussed by this body, in my judgment.

We should not dodge the effects of the reparation payments. Germany has borrowed practically all of the money which she has paid in reparations. Out of five billions borrowed by Germany since the war, two and one-half billions have been paid toward the reparations. This money has not come out of the Germans. It has come from different parts of the world, from our country, from various citizens who have seen fit to advance the money. France receives 51 per cent of the reparations, either in money or in kind. She saturates her own market with goods made in Germany, shutting us out in consequence. She becomes a competitor with us in South America and elsewhere in the world.

It may well be that in our insistence upon the payment of the reparations we are choking ourselves to death. It may well be that the 10 per cent of surplus which we ordinarily send abroad cannot be sent now by reason of conditions arising out of the payment of the reparations.

I think we should frankly face these facts. We should put aside our national prejudices. We should deal with this matter in such a way as will ultimately do the most good to ourselves as well as to the world.

In my opinion, Germany cannot survive unless she is given relief, and the first sensible thing that President Hoover has done in this crisis, as I see it, is to make his belated proposal. One year is not enough, however. Until we can wipe out the memory and effects of the late war, there can be no worldwide happiness and prosperity, and consequent security against future wars.—*Extracts, see 2, p. 256.*



by Newton D. Baker

**T**HE character of the interallied debts is simple. Attempts to divide them up into pre-armistice and post-armistice loans, to separate out amounts which were spent in this country or elsewhere, or to divide them into classes based on the things purchased, as for instance, arms for soldiers on the one hand and food for the civil population or money for the maintenance of credit on the other, are worse than useless. They merely befuddle an otherwise plain situation. The fact is that not a penny of this money would have been lent by us or have been borrowed by any of our debtor nations but for the war.

Their need for it arose out of the contributions and sacrifices made by them in the war and our willingness to supply it arose out of our belief that it was necessary, to our own interest, to sustain their military efficiency until the armistice, and their economic stability after the armistice, in order to prevent a collapse which would have cost us vastly more than the money which we supplied.

The war began in 1914. We entered it April 6, 1917.

When we entered it the condition in Europe was a military stalemate, a political draw and an economic crisis of unparalleled proportions.

In July, 1918, a year and four months after we entered the war, our troops began to take an effective military part in the struggle. During that period the British, French, Italians and Belgians, wasted and devastated by the struggle from 1914, continued to hold the lines while we drilled and got ready behind them. Much of the money we supplied was for the purpose of making that possible. It took the place of our army which was not ready.

So far as the actual expenditures by our debtors are concerned each one spent more than it borrowed from us in purely military operations and it is trifling to inquire whether those expenditures were the particular dollars which they borrowed from us or some other dollars, out of their treasures, which ours replaced.

Nor is it very important to inquire whether at the time of the making of these so-called loans there was an expectation that they should be repaid. The question is not what did somebody think in 1917, but what is it wise to think now?

In the modern world industrial nations are so integrated by mutual investment and by trade relations that political isolation is an illusion. We are investing annually overseas at the rate of \$1,000,000,000 a year. As this goes on our interest in world peace becomes more and more insistent.

Where our treasure is there our hearts will be also. We can maintain the form of political isolation, but the fact is that we are daily becoming not merely entangled, but interwoven economically into the world fabric.

Our enormous wealth demands this avenue of opportunity. Our industries must have access to the raw material of the world. Our producers must have a world market and these necessities are of reciprocal advantage to us and the rest of the world. There was a time when America struggled toward a position in which it would be able to supply its home market. It has now so developed its agricultural and industrial output that it must have a foreign market.

It is a fundamental economic principle that where there is a surplus production the price of that surplus determines the price for the entire product. Europe today is and long has been our best customer, consuming of our total exports more than double the amount of any other continent.

In a very real sense, therefore, European buying in the world markets is a decisive factor in maintaining the price of our entire home product. Any table which analyzes and compares our exports and imports will show that every industry in America, including agriculture, depends for its prosperity upon an overseas outlet for our surplus and, of course, an overseas outlet depends upon there being people who not only want our goods, but also have money to pay for them which we can afford to take.

The argument is, therefore, irresistible not only that America has an interest in general rehabilitation and the maintenance of world peace, but that our own continued prosperity requires it. Moreover, the existence of such

(Continued on page 244)



## by U. S. Senator Borah

**T**HE international debts, as we all know, have once been the subject of adjustment. The amount for which we now hold the obligations of foreign governments is by no means the amount which they had originally agreed to pay. The adjustment which resulted in the reduction of the original amount was a rather generous adjustment, for it ranged from twenty-eight cents to seventy-two cents on the dollar.

There can be no longer any justification for considering the debts other than as a business or economic problem to be adjusted in accordance with the interest of all parties.

Under the present circumstances and in view of present conditions, have we any reason to believe that cancellation of the debts would be of any real benefit either to the creditors or to the debtors? What use would Europe make of the benefits flowing from cancellation?

These sums due belong to the American taxpayers and, if there is to be cancellation, there must be some reasonable assurance that in lieu of the money due they will enjoy some economic advantage.

The American taxpayer is entitled to enquire: Have we any assurance that a debt settlement will be so utilized as to be an economic advantage to the people throughout the world and particularly to those who hold the obligation?

In the Treaty of Versailles was found the statement that the disarming of Germany was brought about to render possible the initiation of the general limitation of armaments of all nations. Viscount Cecil, referring to this clause, recently declared: "We are bound by repeated and express undertakings to promote the reduction and limitation of armaments by international agreement. We have given that pledge in several treaties; it was on the faith of an undertaking to that effect given by Clemenceau on behalf of the Allied and Associated Powers that Germany signed the Treaty of Versailles." It was so construed also by those who caused the provision to be written in the treaty.

Twelve years and more have passed. The pledge of the treaty stands unredeemed; in fact, it has been ruthlessly disregarded. The nations which were to initiate disarmament have initiated armaments on a larger scale than ever before. The total amount, outside of Germany and Austria, expended annually in war preparations in Europe is now about \$2,500,000,000, and armaments are seventy per cent greater than before the war.

What reason, therefore, is there to doubt that, if the American taxpayer should conclude to cancel these obligations, the benefit or advantage derived from such action would go to swell the budgets for more armaments?

The conditions with which Europe is wrestling and which tie her to her program of heavier and heavier armaments are conditions which debt cancellation would not and could not ameliorate.

Before debt cancellation can be of any real value in bettering economic conditions in Europe, something must be done in order that the effect of cancellation may reach the people.

Would the cancellation of the debts make the treaties

of Versailles and St. Germain any less objectionable, any more endurable to one-half of the population of Europe?

Would it solve, or even help to solve, the problem of Eastern frontiers? Would it in the least dispose of the border disputes and the treatment of national minorities?

How can Europe disarm under these conditions and until these problems are adjusted? And how can Europe return to the arts, to industry, to the avocations of peace so long as the European mind is vexed with fear and suspicion and so long as the spirit of the victor obtains in one part and the humiliation of the vanquished in the other?

That the peace treaties now stand as a barrier against the economic recovery of Europe is not alone the view of those who are directly affected, but the judgment also of those who view the problem not as partisans, but as neutrals and with deep sympathy.

Whatever may have been the necessity and the justification for the terms of these treaties at the time, nevertheless they were dictated treaties, they dealt with war and were written in the spirit of war, they were not written with a view to the workings of peace nor written in the interest of the economic recovery of all Europe.

New conditions have arisen and new treaty terms are regarded as essential to the restoration of economic health. Economic health is essential to disarmament and peace. There can be no permanent or durable peace that does not have its foundation in economic justice. Neither leagues, nor pacts, nor international courts can maintain peace when economic justice is absent.

In March last, Germany and Austria negotiated a tariff treaty—designed to eliminate tariff barriers between the two countries and facilitate trade between them—a step in the direction which it had long been urged that Europe should hasten to take. In neutral countries the treaty met with practically universal approval. All regarded it as helpful to the economic recovery of Europe. In the United States the press approved with scarcely a notable exception.

But that which was looked upon with approval elsewhere was denounced in unmeasured terms by certain powers in Europe. The sacred integrity of the Versailles Treaty seemed to be challenged, and this simple, exceedingly wise tariff act set all Europe in an uproar.

The bare technical question of whether it contravenes the Versailles Treaty or the Protocol has now gone to the League of Nations; and the League has called upon the Court, as its legal adviser, to be informed whether the tariff treaty is inhibited by the public law of Europe—the Versailles Treaty. If the Court should decide that it contravenes the Versailles Treaty, then you will have nailed down and riveted upon the civilization of Europe a treaty whose terms forbid the most essential things for the recovery of Europe—which takes away for all time the right to change economic plans or to do that which would mean some relief, some succor, for its distressed people.

If the Court decides that the tariff treaty is not in conflict with the Versailles Treaty, that really settles nothing, for, in that event, the political wisdom of the

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a world market must be predicated upon good will toward us. Such advantage as may come to us by our superior productive capacity and ingenuity other nations will cheerfully see us get in open competition which they are free to enter, but it is not conceivable that the rest of the world will continue to trade with us during sixty-two years in which every one of them would have its own industries burdened by crushing taxes, which would be paid to us for a cause and in a form to them not greatly different from the tribute which Rome imposed upon her friends and enemies alike. We cannot sow the seeds of international distrust, ill-will and selfishness and expect a harvest of friendship and eager trade.

Meantime the debt settlements as made and proposed have angered and burdened to the point of despair all the nations that owe us money. Even where we have canceled a substantial part of a nation's debt we have done it not graciously and broad-mindedly in the interest of world rehabilitation but contemptuously; not because we were generous, but because our calculations showed that we were going to the limit of the debtor's capacity to pay. Every country in the world has had the experience of a vast and hopeless debtor class and has realized that every so often it is necessary to wipe off the slate and start afresh as in a scriptural year of jubilee. This releases the energies of men, restores hope, cures political disorder and gives life a fresh start. The analogy applies perfectly to the present international situation. The United States needs not dollars but a confident, prosperous and peaceful world as a field for its industrial and commercial operations.

That condition cannot be brought about so long as we continue to exact payments up to the capacity of the debtors to pay.

If the foregoing observations are sound, the United States is not justified either in morals or in a long view of its own best industrial and commercial interests in adhering to its present policies with regard to the settlement of the interallied debts.

The time has come when these questions, including the British settlement, ought to be reopened. Personally, I believe that a mutual cancellation policy will be wise. Such a policy ought to relieve England, France, Italy, Belgium and the rest of our war allies both as to their debts to us and their debts among themselves, and in turn ought to require the release of some part of the burdens imposed upon Germany.

This should be done at a roundtable, where a representative of the United States should be authorized to speak with authority and to demonstrate to the rest of the world that America's interest is not in dollars, but in a reconstructed international order, with as much as possible of the grief of the World War swept into oblivion, and the great industrial nations of the world freed to start afresh with harmony and goodwill, in fair economic competition and in at least enough political cooperation to preserve peace in the common interest.—*Extracts, see 4, p. 256.*

WHEN the United States insisted upon the funding of the British debt it became incumbent upon Great Britain to try to collect the debts owing to her by her Continental debtors. But this insistence by Great Britain upon receiving from the Continent in debt payments and reparations a total sum equal to, but not exceeding, the sum we have to pay to America has not altered the view of Great Britain that the best policy would have been an all-around cancellation of inter-Allied debts.

The attitude of the United States to the debts question, both at the Paris Conference and subsequently, has made that wise policy impossible for the present. But both economic and moral considerations must eventually force the adoption of that course.

American opinion is by no means unanimous about the wisdom of compelling her European debtors to repay the loans advanced during the war, for what was admittedly a common enterprise. But, for the time being, political considerations prevent that opinion from expressing itself vocally.

One excuse offered by America for insisting upon the funding of the European debts is that the Continental countries have made no real effort to reestablish their economic and financial prosperity, and that any help America might give in the form of remitting payments would simply provide more money to be spent upon provocative armaments and preparations for another war.

To the extent that that view of Europe is responsible for the unwillingness of America to join in the cancellation of the war debts, Great Britain's heavy annual payments to America are part of the burden she is bearing for the policy of militarism, imperialism, and political intrigues of her former Continental allies. If America's debtors desire to prove that America is wrong in holding this view, and if they wish to take away from here that excuse for not agreeing to the cancellation of the war debts, they can do so by changing their policies, reducing their armaments, and entering whole-heartedly into a united effort to make the spirit of Locarno dominate European affairs.

America cannot permanently maintain an attitude of detachment from the rest of the world with advantage to herself. She is the most nearly self-contained country in the world. She is rich and powerful. But more and more she will become dependent upon world conditions for the maintenance of her prosperity.

It is not a wise policy for the United States to keep the other countries of the world poor. It is not to her real interest to drain the wealth of Europe. Apart from her claim that "destiny has made her the guardian of world economic and social progress" it is to her material interest that she should help, out of her great abundance, to make the rest of the world strong and prosperous.

America should never forget that she owes everything to Europe. Europe has given to her her language, her literature, her science, and her population. Although she entered the war "seeking no material gain, no territory, and no indemnities," she has, by her funding ar-

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# Borah Cont'd

tariff treaty is to be passed upon. It is to be passed upon by the League which, under the circumstances, is the same as being passed upon by those who have already condemned it.

The retiring President of France, in a public address at Nice, a short time after the negotiation of the treaty declared: "France has a right to think that so long as the League of Nations, to whose existence she is so faithfully attached, has not at its disposal a military force sufficient to impose the execution of its decisions on those not disposed to bow voluntarily before them, she must watch out, be on her guard, and count on herself."

The League is looked upon, apparently, not as a peace tribunal, free to exercise its judgment and discretion in the adjustment of a controversy in accordance with right and justice—and whose judgment all are to respect—but as an agent, through and by means of which certain dominating powers are to execute their purpose with, if need be, "military force," since the League is lacking in this essential.

A great nation and her allies must be on the watch and be prepared to furnish that which the League of Nations is not prepared to furnish.

Is it any wonder that Europe suffers and sinks deeper in distress while armies grow and enlarge and people are bled to pay the bills?

Those who urge that the cancellation of the debts will help economically to rehabilitate Europe decline to consider or discuss these matters. But they are determining factors, and without their adjustment there is little reason for the American taxpayer to undertake the task of aiding Europe through the cancellation of debts. When it can be shown that the cancellation of the debts would help to end depression, would bring relief and succor to the masses of Europe, would advance the cause of peace and serve the cause of humanity, it will not be difficult to get a hearing in the United States.

Cancellation, under the present situation, would be of some benefit to the private interest which have seventeen billions in the way of private loans in foreign lands. It would strengthen those who feel that the safety of Europe depends upon heavier armaments. But in lifting Europe out of her depression or in bringing relief to those most in need, it would, under present conditions and under the present program, be of no service or help whatever.

It is more than twelve years since the great struggle ended. The settlement of international disputes through force had had its day and the world was a wreck. In the twelve years which have passed, the League of Nations has been formed, the World Court created, the Locarno Protocol and the Peace Pact have been signed.

But the instruments of war still grow in number and in destructiveness. Preparations for war are again the dominant industry. Unemployment spreads and the remorseless demands of government increase day by day.

If there is no remedy for this situation, then the arguments for cancellation based on the economic recovery of Europe, upon mercy for the overtaxed and underfed,

upon increasing the purchasing power of millions of people and creating thereby markets for our manufacturers and our farmers all fall to the ground.

Every contribution to that situation under the present conditions is a contribution to armaments and to the program of repression and force.—*Extracts, see 7, p. 256.*



## by U. S. Senator Reed

WHEN we remember that the German nation has completely divested itself of any interest charges on the enormous debt which it created during the war and on the considerable debt which it had before the war; that by permitting its currency to become valueless it has effectually despoiled its creditors and stripped itself of debt; that it has no interest charges, as have those countries which have honored their obligations; when we remember that the German reparations amount to approximately \$480,000,000 a year, while our interest charges alone in America now amount to over \$600,000,000 a year and at one time amounted to over a billion dollars a year; when we remember that the British interest charges approximate \$2,000,000,000 a year and that Germany, as against that, is complaining of payments of \$480,000,000 a year, while her victorious adversary, Great Britain, alone goes on with interest payments which are a staggering burden to her of more than four times the German reparations; when we remember the amount of interest that is being paid by France and by Italy on their obligations, it seems to me that we are putting things in a false proportion if we sympathize too much with the plight of Germany in having to pay this comparatively small amount as the only penalty for that war which she brought upon civilization and for that calamity for which she was responsible and which almost wiped civilization from the face of the globe.

If reparations are forgiven, taxes upon the European allies will be increased. We get so slight an amount for the costs of our army of occupation, which is the only money that we obtained from the peace settlement, that it means practically nothing to us directly; but it means the imposition of that \$480,000,000 annually upon the taxpayers of the victorious European allies.

If that were done, the next inevitable agitation would be for a further cancellation of the debts which those allies owe to us, and, in the last analysis, we would find the American taxpayer bearing the burden that belongs upon the shoulders of the German taxpayers.

This agitation in which we sometimes, I am sorry to say, find our own people sharing, and which seems to be a favorite text for sermons in Wall Street—that we must cancel all of these international obligations—is nothing more nor less than an indirect way of saying that the American people, who least of all the nations on earth were to blame for the war, must bear all its money costs. So long as there is an ounce of strength in me I propose

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### Snowden Cont'd

rangements with her late war allies, managed to impose upon them undertakings to pay her an annual sum, which at the maximum will amount to about £80,000,000 a year!

Great Britain's share of this tribute to America will impose, for the next sixty years, if the agreement is maintained, an intolerable burden on the British workers. It will require 76,000,000 days of labor each year by British workmen, for the next sixty years to produce the means to pay America. Great Britain, a poor country by comparison with America, has set an example which the United States might follow with credit to herself. Great Britain has undertaken to shoulder the £2,000,000,000 of debt due from her late allies, if America will forego her claims upon Britain of half that amount.

America's capacity to cancel is enormously greater. Her national income is expanding at the rate of £2,000,000,000 a year, equal to half the total national income of Great Britain. She will pay off her internal war debt in twenty-five years. America has a greater opportunity to be magnanimous: and magnanimity will be twice blessed—it will bless her and the world at large.

England, at great risk to herself, has reestablished the gold standard. It is important for America that this should be stabilized and that other countries should get back to it. The cancellation of the European debts to America would materially assist that end. It would save America from the otherwise inevitable inflation. If America insists upon the payment by Europe of £80,000,000 a year on account of these debts, there is bound to be such a disturbance of her economic life as will cost her far more than she receives from this source.

The best side of the American nation cannot feel comfortable in the thought that the tribute she is levying upon her late allies is keeping the workers in those countries for the next sixty years on short rations. It would be more in harmony with the altruistic sentiment which swept over the American continent ten years ago for her now to say that, out of her great abundance, she will make this further contribution to the restoration of the economic prosperity of the world.—*Extracts, see 3, p. 256.*



by Dr. Nicholas Murray Butler

**W**HEN a nation undertakes the horrid devastation of war, it contributes men and munitions and food and ships and roads and canals and railways and homes and cathedrals and hôtels des villes and schools and libraries and money. Of all these it is the money alone which men are mad enough to suppose that they can get back. It is the attempt to get back in considerable part the money cost of the war which has put upon Europe the unbearable burden under which it is now groaning, and which has aided, powerfully aided, in bringing upon

our heads the disastrous and destructive economic losses which have staggered the people of the United States.

We are told in honeyed words that the money was borrowed and must be repaid in all honor. We are not told, however, that much of it was expended in these United States to purchase war supplies at high prices, producing large profits from which the Treasury took its share in income and excess profits taxes. Nor are we allowed to remember that money is as much an instrument of war as a battleship, a submarine, or a long-range gun. The time has now come, however, when the people of the United States may justly ask to be quickly relieved of the burden which the war debt settlement has put upon them without any regard whatever to the effect of that settlement upon those nations which are among our debtors. We are the chief sufferers by the war debt settlement. As was said by Lord Hervey back in Walpole's time, we reserved for ourselves the poor consolation of being ruined last. He who looks merely at the transactions through the windows of the paying teller and the receiving teller will learn little of the condition of the bank whose windows they are. He must see the bank's ledger, with its full statement of assets and liabilities. What use is it to take in millions of cash in Washington if billions of value are flying out of the windows of the farmhouses, the workmen's dwellings, the industrial, commercial, and financial establishments of the land? What shall it profit a nation to collect war debts in cash and to lose twenty times their amount in value in industry and in trade? While millions of dollars in money are being brought across the sea at stated intervals to be lodged in our Treasury, tens of millions of dollars are being paid by the American farmer, the American wage earner, the American business man, and the American investor through destruction of values, loss of markets, and disruption of trade. It need no longer be sympathy for the European debtor and his state which moves American opinion, but sheer selfishness and an insistent purpose to be quickly relieved of the unbearable burden which the farmer, the working man, the manufacturer, the owner of railroad or public-utility securities, and the small business man of every kind are being obliged to bear by reason of the policy that has been adopted. What will the American people do about it?

If they are wise they will insist that without delay the Government at Washington shall move toward an international commission to restudy this whole subject in the light of the happenings of 1929-1931. The opinion of the wisest economists of the world has never been in doubt, but the so-called practical man, who is often a person who does not know just what he is doing or why he is doing it, has insisted that this great problem should be dealt with as if it were one of a few dollars and cents in a retail shop in a country town. The distress, the economic and political disruption and disturbance that have resulted from the action taken at our instance have been appalling. It is too late, unhappily, to undo all the damage that was done, but it is not too late, before the American people lose more, suffer more, to move toward higher ground. Sheer selfishness and desire for gain should spur us to this step.—*Extracts, see 5, p. 256.*



### Reed Cont'd

to fight it. We have been overgenerous in our treatment of France, to take no other illustration. We made a settlement with France which amounted to a cancellation of about two-thirds of her obligations. If we consider the present value of the settlement and the rates of interest which she pays under it, practically we canceled two-thirds of her obligations, on the ground that her capacity to pay was no larger than that. Then, after we had done that, and after she had secured a similar burst of generosity for Great Britain in marking down the French debt to Great Britain, France looms up all of a sudden as the most prosperous nation on the face of the globe, with an enormous gold reserve, larger per capita than that of any other country, and with their people employed almost to the last man. She reported unemployment as small as less than 2,000 individuals as recently as one time during the last summer. I do not know what the latest figures are; but where every other nation is suffering from the prostration which is really due to the war and the efforts of the war, France alone seems to be prospering.

We have canceled enough debts and I hope that the question of canceling the international debts and the question of forgiving the German reparations will not again become a live issue in the American Congress.—*Extracts, see 11, p. 256.*



### by U. S. Senator Johnson

**T**HE international bankers have met and "suggested" a revision of reparations and debts. This country is now exactly where the moratorium was intended to lead us hastening to the goal long since fixed by our cunning financiers—the cancellation of the debts due to us from European nations. Of course, there will be denials here and there while the subtle propaganda of subservient politicians and press overwhelms our people. When the moratorium was announced under the influence of the carefully laid plans to rush our people off their feet many members of Congress, denying their constituents the right of their deliberate and considered judgment and with little knowledge of the situation, declared themselves for the moratorium; but sagely shook their heads and added they never would be for cancellation. Now they are being eased into the position of "revising" and "considering" cancellation of our foreign debts.

In existing conditions and circumstances consideration means cancellation just as the moratorium meant the first approach to cancellation. Cancellation has been decreed by our international bankers just as they decreed the moratorium. They are the dominant factor not only in American financial life today but in American political life. Their ownership extends to the leadership in both great political parties; and in this crisis, with a self-sacrifice that does them infinite credit they are determined for the benefit of all the rest of us first to stabilize the

foreign securities held by them and then collect every penny of their high rates of interest. Their political puppets poll parrot their Pecksniffian phrases of saving Germany and helping America. They do neither. They protect only their own speculations and profits.

We now have a moratorium by which our country has lost two hundred and fifty million dollars during this year. By this sum our Treasury deficit is increased. We are about to have a cancellation of debts by which our people will lose some eight billions of dollars, all of which will have to be paid by American taxpayers.

None of us but would be charitable in assistance of a needy or a destitute people; but when we see the pathetic lines of the unemployed in this country and witness the tragic fate of the men who till the soil, when on every hand, we know our own have been by tens and hundreds of thousands reduced from comfort and financial ease to penury and want, may we not prayerfully ask our peripatetic government to come home and give its first thought to America?—*Extracts, see 14, p. 256.*



### by U. S. Senator Shipstead

**P**EOPLE who believe that the American taxpayers should pay the bills that foreign countries owe us evidently forget that European nations owe us only for goods bought here and that we have plenty of mortgages of our own to pay.

What foreign governments pay us on their debts amounts to less than one-half of 1 per cent of their national income, less than 3 per cent of their national budget, and less than 13 per cent of what they spend for armaments for war. Their armies are 70 per cent greater than they were before the war. If we should agree to have our taxpayers pay what they owe us, such assumption of debts would release further credit with which to increase their armies and navies, and if we pay their debts, we have no guarantee that they will be so friendly that they may not use their armies and navies against us or against each other.

It is true they all signed the Kellogg-Briand pact to renounce war, but then why all this preparation for war? To ask us to pay their debts is really asking us to finance their war program. They may call it friendly cooperation, if we do so, and say we are showing signs of intelligence and broad vision that will make for friendly relations between neighbors. If a man will only be your friend on the conditions that you pay his bills, his friendship is of doubtful value.

Stripped of its mask of propaganda that has been going on here for years, this talk of friendly cooperation consists 90 per cent of suggestions that our taxpayers should pay what foreign governments owe us, and that we make some kind of an agreement in high-sounding, altruistic phrases which really mean that when the war comes we shall agree to fight on the right side in order to get peace.

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by Dr. John Grier Hibben

THE enlightened opinion of the country calls for a revision of the debt settlement with our former allies. However well intentioned may have been the motives of our Representatives who approved the terms of these settlements, and however lenient these terms may be represented to be by those who wish to insist on our generosity, there is a growing recognition that the settlements so far effected do not meet the actual situation. Even granting the capacity of our debtors to fulfill our stipulations, which is now openly questioned, we do not desire to impose tremendous burdens of taxation for the next two generations on friendly countries who are struggling to regain their strength at the very time when we are amassing a national fortune. To urge our Government's obligation to its citizen bondholders and taxpayers is to evade the real issue, which does not concern the relation of the Government to the people, but our national policy toward certain other States. To divorce the financial provisions of the loans from the moral situation in which they were asked for and given is to invent an unreal economic abstraction.

There is good reason to believe that in economics, as well as in morals, altruism is indistinguishable from true self-interest.

There is no doubt that the statement is quite correct that these debts were not contributions of the United States to their allies but were veritable business transactions, and yet we cannot overlook the fact that were made in the midst of the exigencies of war when all of the allied nations were confronted with the serious uncertainty concerning the outcome of the conflict, and in the efforts to realize the common objective there was certainly a common cause. The post-war loans to the allies were made for a common cause as truly as the loans which were used in providing powder, shot and shell and the general equipment of war.—*Extracts, see 8, p. 256.*



by Rev. John A. Ryan, D. D.

THE war debts ought to be cancelled, first, in order to prevent European ill-will; second, because the debt payment arrangements are unreal; third, because the debts cannot be paid; fourth, because we really do not want them paid; fifth, because the economic sacrifice involved in cancellation is negligible; and sixth, because of the great advantages to be derived from cancellation.

1. *European Ill-Will.* It is currently and frequently asserted that our late Associates in the war are embittered toward us and characterize our insistence upon repayment of the debts as the act of a Shylock. It is reported that a large part of British and French opinion does not admit that our assistance was of any importance in deciding the issue of the Great War. At the present time we seem to be better liked by the peoples of Austria, Germany, and Hungary than by the Allies. However

unjust we may regard these attitudes and developments, we cannot view them with serene indifference. They contain grave possibilities of military and economic injury. Should this distrust and enmity increase they would not improbably compel the United States to enlarge its military and naval equipment; and they might bring about a European economic league which would gravely injure our European trade.

Finally, it is worth our while calmly to visualize the attitude of the nations as they continue for sixty-two years to pay foreigners for debts contracted to carry on a war ended in 1918.

2. *The Unreality of the Debt Payment Arrangements.* History provides no precedent for such enormous loans among nations nor for repayment over such a long period of time. Nor do commercial loans and debts afford anything like an exact parallel. Few, if any, loans between private persons or corporations cover sixty-two years or are subject to such uncertain or so many unpredictable contingencies.

Of what real interest to this generation is the question whether the United States shall still be collecting these debts thirty or forty years hence? When the Debt Funding Commission yielded to the realities of the situation and allowed sixty-two years for maturity of the debts instead of the twenty-five years required by Congress, it seems to have been indulging the vague hope that conditions might be more favorable in the distant uncertain years than they are today. To use a colloquialism, the Commission seems to have "passed the buck" to future generations.

3. *Our Debtors Have Not the Means to Pay.* It is practically certain that with the exception of Great Britain none of our debtors is or will be economically able to pay the required installments during the next ten years. That is to say, none of them will be able to provide a surplus of exports over imports and, therefore, to pay in the only way that one nation can pay another. The Continental countries which have begun to make payments on their foreign war obligations are able to go through the motions of the transactions because they have previously borrowed the money, mostly from the United States. As soon as Italy had agreed to the funding arrangement, it borrowed from American bankers four times the total amount of its debt payments for the next five years.

This means that our Government receives the war debt payments from our own citizens who take the place of the Government as creditors to our foreign debtors. It is all but certain that the debtor countries will for a long time remain unable to obtain the money through taxation.

If these countries, through devices not now apparent, do succeed in making the annual debt payments by producing a surplus of exports over imports, they will have to lower still further the deplorably low living standards of their people.

4. *In Reality We Do Not Want the Debts to be Paid.* The annual interest and sinking fund payments which our thirteen European debtor countries have agreed to pay aggregate an average of \$242,000,000 annually for

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## Shipstead Cont'd

Cooperation outside of these things does not seem to be mentioned much, nor is it considered practical. The American people have always been, and will continue to be willing to cooperate in doing their share to further human welfare, and in order that humanity shall have a better life.

Why do they not discuss the question of the revision of the treaty of Versailles? That is the ghost that really makes all Europe nervous. That they only talk of in whispers.

The League of Nations, it is charged, has appointed a committee whose purpose it is to induce China to violate the Hague treaty, which Roosevelt succeeded in negotiating, outlawing the opium traffic in China. They are endeavoring to induce China to establish an opium monopoly and again legalize the growing of the opium poppy.

The United States delegates at various conferences have unsuccessfully endeavored to induce other governments to cooperate to enforce the Hague convention. They have failed because European countries have had enormous revenues from this nefarious traffic. Our Government has on various occasions endeavored to get their cooperation, to reduce armies and navies, in the interest of the taxpayers and peace, and in this we have failed.

Here are a few fields for cooperation whose soil is fertile and capable of bearing good fruit. When European governments will join us in cultivating this vineyard, they will find us more than willing to cooperate, and do more than our share.—*Extracts, see 13, p. 256.*

## by U. S. Senator Howell

**D**ESPITE the fact that last year every nation paid as agreed and the total was more than any previous year, it was less than \$240,000,000, or only about half of the \$480,000,000 interest the United States Government paid on its outstanding bonds, equalling the \$12,000,000,000 of debts due from abroad.

In addition to assuming the payment of these \$12,000,000,000 of European debts—that is, transferring this burden from Europe to the backs of our own people—each year we must dig deeper into our pockets and pay the difference between the total payments of the debtor nations for that year and the interest charge paid on \$12,000,000,000 of Government bonds.

As I have indicated, last year this interest deficit was about \$240,000,000. The previous year it was more, and the year previous to that still more, and so on back eight years to the date of the first settlement. In fact, these deficits have totaled to the present time between \$1,500,000,000 and \$2,000,000,000 ready money actually paid out—enough to take care of the pending Treasury deficit of \$800,000,000 and leave \$1,000,000,000 for our unemployed and our distressed farmers.

Our international bankers and the chancellories of

Europe worked while we slept. They are still working; that is my reason for reiterating these facts at this time. Having accomplished the cancellation of this huge debt and maneuvered us into accepting 2.64 per cent interest thereon for sixty-two years in lieu of full payment, as directed by Congress, they now propose to clean the slate, as evidenced by the audacity of certain European delegates in the recent sessions of the International Chamber of Commerce in Washington, who in effect urged further if not complete cancellation.

Our generosity in this matter has no counterpart in history. It is the generosity begotten of flattery and handling other people's money—taxpayers' money. It approaches the generosity of the simpleton when considered in juxtaposition with the fact that these same nations are now spending billions in war preparations—sums far in excess of such expenditures in the peace years prior to the time when these cancelled debts were contracted.—*Extracts, see 12, p. 256.*

## by Former U. S. Senator Dick

**I**T is certain the Hoover year's moratorium on the international obligations between governments will induce, as the months go by, an increasing flood of that relentless and omnipresent propaganda which already has created in a large part of the public mind the fool notion that reparations and American war debts are financially, diplomatically and morally one problem—one mass of like debts.

Of course, the goal obviously aimed at is the ultimate singling out of the United States as the sole creditor and of Germany as the sole debtor, with the allies on the sidelines, their "slate washed clean."

This dishonest scheme must be relentlessly resisted by making the American people understand the true non-relationship and the vast misfortune and injustice to their country should this sophistry be generally accepted, inevitably entailing American payment for Europe's war.

Since the United States never had anything to do with either the origination or assessment of German reparations, we must not allow the allies to shift over to us in the slightest their collection, or any responsibility, direct or indirect, for their maintenance.

When in 1919 at Versailles the allies forced from Germany a shotgun signature to pay a tribute of \$33,000,000,000, Americans there protested that it was three or four times greater than investigations showed possible of payment. Of course, it has since been reduced, in exchange for political and other concessions.

During the last twelve years of armistice the allies have pumped out of Germany more than \$5,000,000,000 of cash and goods on the reparations account; in the last fiscal year they took \$425,000,000. This on top of Germany's economic and physical prostration and the loss of all colonies and raw materials taken by the allies. In this period, when the health and substance of the nation were being

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# Ryan Cont'd

the next ten years. Add to this \$600,000,000 yearly interest on the eleven billions of commercial loans made by citizens of the United States in foreign countries and you have a total of approximately \$850,000,000 which we can receive only in the form of imports. That would represent our unfavorable balance of trade if we made no more loans to foreign countries. This condition would scarcely satisfy those among us who desire to continue indefinitely an excess of exports over imports. It is only through continued borrowing from us that foreign countries can continue to take from us more goods than they send us.

Hence, we are confronted by a dilemma. If we want the war debts paid we shall have to discontinue or discourage the practice of indefinite lending abroad; if we do this we shall have to curtail our exports and, therefore, our production, at least of certain kinds of goods. A further complication is introduced by our high protective tariff. Unless this is lowered we cannot accept sufficient foreign goods to provide the annual sums due from debtor nations. As a consequence we are witnessing a distinct and growing cleavage between two classes of American business men. On the one side are the industrialist who wants a high tariff in order that the interest due them from foreign countries can be paid by the only possible method, namely, in goods, in imports. Naturally the former would rather have the debts cancelled than the tariff lowered. Probably the majority of the bankers are equally favorable to cancellation, inasmuch as that action would render their own loans more secure and the regular receipt of interest payments more probable.

5. *The Economic Sacrifice Involved.* The assertion is frequently made that cancellation would inflict great hardships upon American taxpayers. They would have to provide all the money to pay the interest on the Liberty Bonds, whereas, a part of the necessary funds is now obtained from our foreign debtors. Let us see just how oppressive would be this burden, as applied to personal income taxes.

On the assumption that the tax collection is to be the same in 1930 as it was in 1925, namely, \$879,000,000, the burden of cancellation in 1930 will be an increase of twenty-seven and one-half per cent in the personal income taxes. With the number of taxpayers the same, the burden will average \$60.50 per capita.

This situation is comparable with that involved in President Coolidge's proposal to rebate ten to fifteen per cent of the income taxes paid in 1926. According to the *New York World*, November 9, 1926, this action would have enriched ninety per cent of the taxpayers by less than two dollars each, and the majority of them by about thirty-three cents. The burden imposed by cancellation would in 1930 be about twice the benefit proposed by the President; that is, twenty-seven and one-half per cent, as against ten to fifteen per cent. In other words, it would cost ninety per cent of the taxpayers less than four dollars each and the majority of them about sixty-six cents.

6. *Advantages of Cancellation.* These are very great, incalculable in fact, if cancellation takes place subject to

two conditions. The first is the wiping out of German reparation indebtedness; the second is the agreement of all nations upon a policy of disarmament, outlawry of war and some revisions of the Treaty of Versailles.

The first condition should be very easy of fulfillment. The British policy was expressed more than four years ago in the Balfour Note, to the effect that the British share of German reparations would be surrendered upon cancellation of the whole body of inter-Allied indebtedness. It should be kept in mind that Great Britain lent about twice as much to its Allies as it borrowed from the United States. France borrowed about seven billions of dollars more than it loaned. Italy and all our other European debtors would have everything to gain and nothing to lose through cancellation. So far as German reparations are concerned, France would, indeed, be a loser, but her share of the reparations, estimated on the basis of the Dawes Plan Annuities, is at most only five billion dollars. Therefore, France would obtain a net gain of two million dollars through cancellation.

All the payments thus far have been derived from money borrowed in the United States. As Mr. Keynes expresses it: "The United States lends money to Germany; Germany transfers its equivalent to the Allies and the Allies pay it back to the United States Government. Nothing real passes—no one is a penny the worse. The engravers' dies, the printers' forms are busier." Indeed, this description can be applied quite as accurately to payments made or likely to be made to the United States by the debtor nations, with the exception of Great Britain.

The other condition preliminary to all-round cancellation of war debts is the agreement of all the nations involved in the Great War to adopt certain definite measures for the stabilization of peace.

No profound knowledge of economics or politics nor any unusual flights of imagination are needed to realize the benefits that such an achievement would bring to all the nations of the Western World, particularly to those directly involved in the transaction. Even greater would be the advantages through relief from the burden of armaments, the increase of international trade and the stabilization of economic and fiscal systems. Immeasurably greater would be the benefits to all the nations of the world from the assurance of peace and the creation of a new international spirit. In comparison with the quality and quantity of these benefits, the paltry sum of twenty-two billion conjectural dollars, which it is nominated in the bond that we should receive during a period which is much longer than the average term of human life—is not only negligible but deserving of complete and utter contempt.

If there ever was a time when the precept of charity demanded something from one nation to other nations, that time is surely the present, that nation is the United States, and that duty of charity is to bring about the cancellation of war debts and reparations. And this would prove to be not only good morals, but good policy.—*Extracts, see 9, p. 256.*

# Dick Cont'd

drained off by the allies, leaving nothing but a shell, certain reckless American bankers, intent upon the profits available, annually poured hundreds of millions gotten from trusting American investors into this German pit—I should say conduit, because the funds flowed right out to the allies.

Is it not clear that, with these hundreds of millions of American funds running through Germany, a lot of flat bonds decreed and held by the allies were being replaced by commercial obligations with scant and steadily decreasing value behind them taken up by American citizens? American investment there amounts to twenty-five hundred millions of dollars, of which sixteen hundred millions are in securities.

Since 1922 the American people have had stuck under their noses the Balfour formula that England had no desire to collect from her debtors more than what she required to pay her creditor, but that she could hardly be expected to collect less. The other allies now echo it, referring to German reparations and American debts. Why, in 1922, could not a wide-awake American Government have immediately declared, having in mind the holders of Liberty bonds, that she had no desire to profit from her debtors, but that she wanted only enough to repay those lenders whose funds had gone to the allies, and that she could hardly be expected to collect less?

Indifferent, with a strange callousness to the low character of their game of whining mendicancy alternating with threats of repudiation, the ill-concealed idea behind the performance of allied debtor and international banker is not that the debts cannot be paid, but simply that they will not. Combining a concealed wreckage of the German economy by exhaustive bleeding, with a propaganda picture of growing prosperity by American investment, they induced vast sums to flow thereto as loans from the United States, topped off with one hundred million more in "commercialized" reparation bonds last year, intent upon involving us to the point where, in the inevitable crash, we would be "interested" in their argument of lightening German reparations in proportion to cuts in allied war debts to America.

Have we become such idiotic incompetents and moral cowards that we have neither the capacity nor the resolution to defend ourselves against even foreign piracy aided and abetted by some of our own countrymen?

We might well remind France that, had it not been for United States aid in 1918, she would not now have her teeth set in Germany's throat, and that her rescue from total defeat was not for the purpose of bullying her enemy, at least to the point of bringing on a world-wide collapse.—*Extracts, see 16, p. 256.*



by Garrard B. Winston

**I**N times of world-wide depression it is not surprising that there should be a desire to find some panacea to put the world right again. This wish is undoubtedly behind the revival of the agitation for a cancellation of

the war debts. The view is presented that it is for the best interests of the United States that such cancellation take place. In order to determine whether such a policy is sound the American public should have before it the facts.

The treasury estimates for the fiscal year ending June 30, 1931, show a deficit of \$180,000,000. Included in "ordinary receipts" is \$184,000,000 of interest on war debts. If this item is not paid the deficit would be more than double.

In the estimates for the fiscal year ending June 30, 1932, there is shown a surplus of \$30,000,000, after including "ordinary receipts" of \$184,000,000 from interest on the war debts. It is at least a fair guess that the continuation of the depression in the United States will require a revision of the 1932 estimate downward when it is reconsidered in the coming November.

It is perfectly clear, therefore, that without the payments of interest on the war debts the government will have to find equivalent revenue elsewhere from increased taxation.

In the fiscal year 1931 repayments of principal of the war debts are shown as a reduction of our national debt to the extent of \$48,000,000, and in the fiscal year 1932, to the extent of \$57,000,000. While the receipt of principal repayment of the war debts does not affect the government's book figures of deficit or surplus, it is likewise clear that if these payments are not used to retire the government debt its retirement will have to be made out of other revenue, which again means additional taxation. Either our debtors pay or the American taxpayer does. There is no other choice.

The popular impression is that the war debt payments constitute one of the largest items of international monetary transactions and are, therefore, the critical factor in international prosperity. They are, however, relatively small.

Using the "Balance of International Payments of the United States in 1929," which is the last report of the Department of Commerce, the war debt receipts, principal and interest, were \$212,000,000, as compared to net immigrants' remittances of \$223,000,000 and net tourists' expenditure abroad of \$659,000,000. During 1929 American investments abroad paid their owners \$876,000,000, while we paid to foreign investors \$270,000,000, or \$600,000,000 on balances in our favor. The Balance of International Payments shows a total of something over \$10,000,000,000 on each side of the ledger. War debt payments are smaller than many other items, and, in fact, amount to only about 2 per cent of this total. Surely, they cannot be considered a controlling item.

Under the doctrine laid down in the Balfour note England has taken the position that it desires from Germany and its war debtors only sufficient to pay its debt to us. It is now receiving in each year more than the annuity due the United States. A cancellation of the entire British debt, if the principle of the Balfour note is followed, would not relieve the British taxpayer of a penny of his present tax burden. No one doubts now France's ability to keep up its debt payments, even though all German reparations were canceled. Italy, like England, is receiving enough to pay what it owes to other

(Continued on page 253)



by Count Eberhard Westarp

THE opinion is sometimes advanced that European countries would use the money saved through reduction or cancellation of war debts (including the German reparations) for further armaments which would increase the war danger, and that the United States should, therefore, insist on the continuation of the debt payments simply for pacific reasons, regardless of whether or not such payments threaten the world's business.

While it is true that the wealth of a nation does have some influence on its armament, the situation is not so simple as it sounds. In order to realize what the war debts (always including German reparations) mean to the various European nations—omitting the small countries and their payments—we must bear in mind what the great powers receive and what they are required to pay. In round numbers, these payments during the lifetime of the Young Plan (in millions of dollars) are as follows:

	Receives	Pays	Balance
Germany .....	...	473	...
Great Britain.....	181	160	21
Italy .....	50	35	15
Belgium .....	27	7	20
France .....	250	100	150

Obviously if all war debts were cancelled the only country to profit directly would be Germany; France and Belgium would suffer considerable loss, though for Great Britain and Italy it would mean no important change. In other words, the only nation that would be in a position to increase its armaments by reason of this changed financial situation would be Germany.

Germany, however, is limited by the terms of the Peace Treaty to a small army of 100,000 men. Even if this clause of the Versailles Treaty were to be modified, which is improbable, Germany's armaments would hardly be a menace to European peace. In the first place, she needs the money more than any other country in the world to rebuild her economic structure; second, to increase German armaments (and correspondingly decrease that of France) would reduce the difference between Germany and her neighbors, thus making war far more risky and, therefore, less probable. France, on the other hand, is in position to increase her military hegemony not only by means of new armaments, but through her reserves. Every year she releases men from the regular army to the reserve, in this way establishing a reservoir of well-trained soldiers such as no other country possesses.

There are only two countries in Europe with a considerable credit balance on the war debts account that is available for armaments, viz., France and Belgium. And they use it! Who does not know that both these countries are constantly increasing their armies and their war equipment that they are constructing a powerful line of fortifications from the Channel to the Mediterranean—a modern Chinese Wall—at an expense of more than \$100,000,000? What purpose do these fortifications serve? Does anyone believe that they are designed merely to protect the strongest army in the world against the "invasion" of a German army which, after the deduction of troops necessary for other frontiers, would be

far less than 100,000 men—an army without heavy artillery, tanks, or airplanes? Furthermore, the World War demonstrated how soon fixed fortifications become obsolete. For what time, therefore, are these French and Belgian fortifications built?

It may be argued that European land armaments have only an indirect interest in this country. But the building of strong navies is certainly of the greatest concern to the United States. France is not a party to the London naval agreement, and it is doubtful whether she will ever consent to a program restricting her shipbuilding for more than a few years unless her hegemony on the ocean is established. The figures of the recent Franco-Italian settlement and its later deadlock have demonstrated this clearly. If France holds to her theory regarding replacement of obsolete vessels, England is forced to apply the so-called escalator clause. And what will America do then? Obviously the way France uses her reparation money is a matter of very great concern to the people of the United States.

Furthermore, French money is not used solely for armaments at home. It is a well-known fact that France extends international credit only for the purpose of political or military advantage. This was indicated by the recent Italian loan negotiations. It was also proved by the French offer of credit to Belgium, a country which needs money—in spite of the reparation surplus!—for her vast armament program the current year. It is well known that a certain group in the Belgian parliament has opposed such a loan, because it would make the country a military dependent of France in case of war. Moreover, those who followed the latest British-French negotiations realize that France received English backing in certain international problems. This furnished support to the rumor that England has made certain concessions to France in regard to the next disarmament conference, as the Labourite, G. W. Knight, has stated. Although this has been denied, the fact remains that where there is smoke there is usually also a fire. Examples similar to these could be cited with reference to countries in Eastern and Southeastern Europe as well.

Unquestionably, France will object to a new war debt settlement and to genuine disarmament because by means of reparations she obtains the money to establish her European supremacy, both economic and military, to create an army and, later on, a navy second to none. The Franco-Italian naval agreement—if it goes through—must be viewed from this same standpoint. Building will be stopped only a certain period of time, during which France can bring her land and air armaments up to the strength she wishes them to reach. England meanwhile has to support France in both efforts, for if she does not, France draws gold from the Bank of England or accelerates her shipbuilding to a speed dangerous to Great Britain. Will England likewise support France in the next disarmament conference?

So long as France, as the result of the profits from reparations and war debts, is financially the most powerful nation in Europe and continues to grow stronger each year, the chances for world peace with actual disarmament are slim. It is correct, then, to say that a cancellation or a reduction of war debts would endanger European peace? The reverse would seem to be the inescapable conclusion.—*Extracts, see 6, p. 256.*

# Winston Cont'd

nations on account of the war. A cancellation of the American war debts is not now required by any debtor, but it is urged the benefit would accrue to Germany, which requires relief or it will flood the world with cheap goods. Relieving Germany of its obligation to collect taxes to pay reparations might make German competition still harder to meet. It certainly would not benefit American business to assume Germany's burden.

The question for the American people to determine is whether the benefits they will receive from cancellation are worth the price that they are asked to pay. On the business side the question is: Would the United States benefit by increasing the annual purchasing power of Europe by some \$230,000,000 at the price of raising a similar sum each year from the American taxpayer—about a 20 per cent increase in the personal income tax? On the sentimental side the question is: Would the improvement in the feeling of Europe for the United States be worth the transfer from Europe to the United States of a debt burden aggregating over \$11,000,000,000?

It seems to me the business question answers itself. The sentimental question is more difficult. Perhaps foreign goodwill is worth such a price. Perhaps we might find our foreign friends looking upon cancellation as, after the war, they did upon our entry into that struggle. Once the war was over, the United States was not so much thanked for going in as blamed for going in late. So with the war debts—we might not be so much praised for cancellation as criticized for being so slow about it.—*Extracts, see 15, p. 256.*



## by Walter Russell Batsell

**C**ONTRARY to a widespread belief, the American people did not profit from the World War; unlike most Powers, from the beginning they did not regard that struggle with an eye to material gain. True, the United States has made an astonishing degree of recovery from war losses. This, however, has not been accomplished by any unfair advantage but rather by strong fiscal and economic policies, scientific methods of production and hard work. If other countries showed the same capacity for progress, the increase in national wealth would soon far surpass their war losses.

To be sure, Europe cannot hope to recover from any disaster as rapidly as the United States. And the post-war Europe, split up as it is into so many artificial States created in the minds of theoretical historians and revenge-seeking diplomats, can recover less rapidly than the pre-war Europe. Whether it be by the adoption of a longer work-day, by the abolition of petty hindrances to trade that are as disastrous as would be similar barriers between each of the forty-eight American States, or by giving less attention to military and civil services and politics which usually place the individual or group welfare above the welfare of the State. Europe can do much to increase her productive capacity and to ameli-

orate her economic situation. If this is not done, it seems hardly fair to cast the blame for the consequences outside of the borders affected.

A sum of 22,000 million dollars which is to be paid to the United States appears at first sight to be immense. But when liquidated over a period of sixty-two years, it amounts to only 366 million dollars a year. Of this yearly payment, Great Britain is responsible for 182 millions, leaving the Continent a similar sum to pay. It has never been seriously disputed that Great Britain will be able to meet the terms of her agreement with the United States. Can the United States Government be convinced, therefore, that its continental debtors cannot pay a sum of 182 million dollars a year, even without counting the 272 million dollars a year that France, Italy, and Belgium expect to receive from Germany? The increase in American commodity purchases, expenditures by tourists, and other items since the war amount annually to five or six times the payments to be made on the debt. The greater part of the tourist expenditure—though, of course, this item does not represent an absolute profit—goes to the three continental debtors mentioned above and alone more than takes care of the whole debt service.

Whatever the press, sentimentalists, or politicians may say, it must be recognized that the debt settlements were by agreement within the capacity of the different countries to pay. In most of the countries the sums required for the debt service are less than two per cent of their present governmental expenditure and in the most extreme case only about four per cent. Neither does the burden comprise more than 1.6 per cent of the total military expenditure of any debtor. This obligation is much less than that met by the United States from 1830 to 1870, and even up to the war, in paying large amounts of money in interest for the discharge of European loans.

Considered on a basis of fact, the American debt funding agreements do not represent a real burden for any of the debtor Powers.

The essential question, however, is this: Can Germany, deprived of the valuable territory of Alsace-Lorraine, pay over 300 million dollars a year as reparations when France and Italy believe themselves unable to pay 276 million dollars a year on their entire war debts? Germany's pre-war economic and financial position would have demonstrated this superiority, but it is doubtful whether, unless the Russian field is fully opened, in the immediate future her economic capacity will be as great as that of the two Allied Powers combined.

The future of German payments will determine the course of the debt settlements. So far as actual transfer is concerned, the German burden is heavier than that of any country. But both in the case of Germany, on the one hand, and of the former Allied Powers, on the other, what they can pay and what they are likely to pay are two different questions. What will be paid will depend in great part on the policy of the Government of the United States, on the amount out of which it will permit itself to be robbed.

The American Government is convinced of the justice of its settlements with its debtors. In another respect, it quite realizes that pleas for cancellation, if coldly stated,

(Continued on page 255)

## Editorial, *Colliers' Weekly*

**T**HE acclaim which greeted President Hoover's courageous proposal of one year's postponement of all payments on war debts and the renewal of hope in the world which followed it show how heavily this tangled business has weighed on the minds of those who must lead the world back to prosperity.

Mr. Hoover's emphasis on the economic interdependence of the nations of the world inevitably brings closer a reconsideration of the whole problem. We will be asked, as we have been asked before, to reduce the war debts that are owed us. Hitherto we have been generous, but for political reasons we have appeared to be hard-boiled. If we go farther we shall have to be frank about it. Let's look at the facts. They are plain and simple.

We scaled down our war debts, keeping the principal intact but reducing the interest rates. We forgave France more than England and we forgave Italy more than France. We forgave precisely what we thought we could not collect. It was a tidy sum.

Various nations now owe us about twelve billion dollars because of obligations assumed on account of the World War. Some pay us nothing on account. The Soviet government, for instance, pays nothing.

Great Britain and France have made the largest payments. Altogether, what we are paid on account of the war debts about equals what the former Allies are paid by Germany in the form of reparations.

We have insisted strenuously that what the Allies owed us had nothing to do with what Germany owed the Allies. They have disagreed as strenuously. Great Britain has said quite plainly that she would demand only so much from her debtors as the United States exacted of her.

As a matter of fact, our war debts and German reparations are but two sides of the same problem.

Germany, according to very wise and dispassionate observers, has reached the limit of her capacity to pay. Unless the German war debt is lessened, the German people may be indefinitely impoverished. Of this fact there can be little question.

No nation, certainly not the United States, would be benefited by a German collapse. It is to our interest, therefore, to reconsider the war debts to the extent that reconsideration will potentially affect the continued solvency of the German people.

Senator Borah says, in an article published in this issue of *Colliers*, that the war debts might be reconsidered if we were assured that the money would not be used

to increase European armaments. President Hoover intimated similar opinions several weeks ago. We have the right to specify the terms upon which we will remit debts owed us.

Whom do we want to disarm? Not Germany, certainly, for Germany is already disarmed. Not Great Britain, for Great Britain has already reduced her forces to half of what they were in 1913. France, according to the League of Nations Armaments Report, spends only a little more than half as much as we do for national defense. If we insist on a reduction in French armament before we are willing to consider a reduction in war debts, we won't get far toward a solution of the problem.

Germany, however, and not France, is the danger spot. France is comparatively prosperous. Germany, on the other hand, has been drained to the limit of endurance.

Whatever we do, or refuse to do, we are vitally interested in a restoration of world prosperity, and Germany is a large and important part of our world. On the crudest material basis what happens to German economic life is our business. A bankrupt Germany might be a Fascist or a Bolshevik Germany. Neither prosperity nor world peace would be served by a Germany ruled by a Hitler or a Stalin.

The breathing spell which Mr. Hoover proposes will provide an atmosphere more propitious for a view unclouded by political considerations. It will become more and more apparent that any permanently curative program must include the reduction of reparations payments.

Europe alone can hardly be expected to take this entire loss in expectations if not in actual cash. Neither France nor Great Britain is going to reduce her claims on Germany while our claims upon them stand unchanged.

We have the right to demand concessions if we make concessions. We have not the right in moral or in international law to say what shall be the defense policy of a sovereign nation. As a matter of fact, through the League of Nations, France and other nations are preparing for a world conference on disarmament. There is no reason to despair of the success of that conference. Much has been done and more will be done. No people is sufficiently lunatic to look today for profitable adventures in war. The present world task is to get Germany back on a productive basis. If this requires a scaling down of the payments which we receive indirectly through our debtors it is to our interest to accept the reduction and to do so without subterfuge and without deceit.—*Extracts, see 7, p. 256.*



**Batsell Cont'd**

mean that Europe wants the United States alone to liquidate the overhead war costs. Once the burden of the last war is disposed of, the sums used to meet the debt agreements will merely be transferred to preparation for another conflict. To the mind of certain debtors "cancellation of war debts is the only guarantee of peace." These countries forget, however, that if the war debts of the Allied Powers are canceled, it will be for economic reasons and that German reparation payments will have to be abandoned simultaneously. Then funds will be available on both sides for a new struggle on the Continent. It is doubtful whether the American Government will again feel in a mood to lend to countries which showed no great appreciation of its effort in the war.—*Extracts, see 17, p. 256.*



**Editorial, Saturday Evening Post**

WASHINGTON was right—meaning George Washington, not Washington, D. C.—in warning America against foreign entanglements. When we took the initiative in trying to help Europe our intentions were good, but they have paved an exceedingly doubtful, if not a dangerous, road for us. Despite the disclaimer when the moratorium was proposed of any intention to cancel, in the opinion of Europe, these debts are practically in the discard. Nor is it probable that Germany will resume payment of reparations at the end of a year or of ten years—at least on anything like the old basis.

We cannot help people out of a morass by plunging into it with them. But the bankers, brokers and miscellaneous internationalists who led us into the swamp are the ones who have been most insistent on our getting in deeper.

The report of the Wiggin committee, as was to be expected, for it was headed by one of America's leading cancellationists, not only implies a drastic scaling down of the reparations—which is the first step toward ultimate cancellation—but it questions our tariff policy. Yet just before the report of this committee was printed in the *New York Times* there was a story that MacDonald would urge Parliament to impose a ten per cent tariff on imports.

Germany's plight is not due to reparations. She has

paid none. The United States, assisted by England, has loaned her the money to pay them. But more than that, our bankers and brokers have floated one large loan after another. A part of these loans was spent in rehabilitating Germany's industry, another part was blown in on extravagant and nonproductive municipal and social projects. Naturally, Germany was willing to borrow as long as anyone would lend. Unless and until the Versailles Treaty was revised, she felt that she had everything to gain and little to lose. She has the fine new plants and the public improvements. We hold the bonds.

Germany has learned the power of passive resistance. She is tightening her belt and preparing for a showdown. The "pygmy minds" that framed the Versailles Treaty, and actually believed that seventy million people could be humiliated and kept in bondage indefinitely without trying to free themselves by hook or crook, need the attention of a psychiatrist. So far as we are concerned, we are getting exactly what we deserve for bad banking and our inability or unwillingness to see a crisis coming that has been building up right before our eyes for months and years.

Under present conditions, debt cancellation does not mean rehabilitation for Europe, but so many more billions for armaments, a policy in which France is, of course, the conspicuous offender. Loans and credits do not help put men to work. They help keep them idle by enabling European countries to finance the dole.

We are undoubtedly in for heavy losses in Europe. We have, in fact, already made them. Private investors, large and small, banks, large and small, are loaded up with depreciated foreign securities. We doubt whether it would be possible to float another large issue of European bonds in America—at least for a long time to come.

The great majority of inarticulate moderate men who retain their sanity ask themselves: Why is the prospective loss of some billions of foreign debts, which the American public must pay out of new taxation, a bull argument?

And if we send good money to Europe after bad, will the bad trot docilely back home hand in hand with good, or will both decide to be naughty and stay in the old country?

And why, if there must be great armaments and a dole, would it not be more logical to build up our own army and navy and inaugurate a dole for our own people, vicious and destructive as the dole has proved to be, instead of indirectly supplying the money for these purposes to Europe through loans and by canceling the debts? Safety—and charity—should begin at home.—*Extracts, see 18, p. 256.*

## Highlights in the War Debt Negotiations

(Cont'd from page 230)

### 1923

On January 8 the Foreign Debt Commission received the British Commission appointed to negotiate a settlement of the British debt and began work on the problem.

On February 3 the American Commission reported to President Harding that an agreement had been reached with the British Commission but that its terms were not confined to the limitations prescribed in the Act of Congress creating the American Commission and that further authority from Congress would be needed.

On February 7 President Harding presented the Commission report to a joint session of the Senate and House with the recommendation that Congress pass the required legislation and approve the settlement with Great Britain. In his address to the Congress President Harding said:

"The call of the world today is for integrity of agreements, the sanctity of covenants, the validity of contracts. Here is the first clearing of the war-clouded skies in a debt-burdened world, and the sincere commitment of one great nation to validate its financial pledges and discharge its obligations in the highest sense of financial honor.

"There is no purpose to report that your commission has driven a hard bargain with Great Britain, or to do a less seemly thing

in proclaiming a rare generosity in settlement. Amid widespread clamor for the cancellation of World War debts, as a fancied but fallacious contribution toward peace—a clamor not limited to the lands of debtor nations but insistent among many of our own people—the British commission came to make acknowledgment of the debt, to put fresh stamp of approval upon its validity, and agree upon terms for its repayment."

On February 28 Congress passed an amendment to the Act of February 9, 1922, which created the Debt Commission, granting the extension of authority requested by the Commission.

With the funding of the British debt all official discussion of debt cancellation, so far as America was concerned, came to an end.

### 1927

On February 9, the life of the World War Foreign Debt Commission expired, and, under the authority of Congress debt settlements of those countries that had not been reached by the commission were negotiated by the Secretary of the Treasury and approved by Congress. See table on page 230 for final status of debt settlements.

## This Month's Contributors

Hon. Andrew W. Mellon, U. S. Secretary of the Treasury, Chairman of World War Foreign Debt Commission.  
 Albert H. Wiggin, Chairman, Governing Board of Chase National Bank, N. Y. C., Chairman, Bankers Committee, Seven Power Conference.  
 Hon. Royal S. Copeland, U. S. Senator, N. Y., Dem.  
 Philip Snowden, British Chancellor of the Exchequer.  
 Newton D. Baker, U. S. Secretary of War (in President Wilson's War Cabinet).  
 Dr. Nicholas Murray Butler, Pres., Columbia University, N. Y. C.  
 Count Eberhard Westarp, German author, resident in New York City.  
 Hon. Wm. E. Borah, U. S. Senator, Idaho, Rep.  
 Dr. John Grier Hibben, Pres., Princeton University, Princeton, New Jersey.

Rev. John A. Ryan, D. D., Director, Social Action, Natl. Catholic Welfare Conference.  
 Hon. Reed Smoot, U. S. Senator, Utah, Rep.  
 Hon. David A. Reed, U. S. Senator, Pa., Rep.  
 Hon. Robt. B. Howell, U. S. Senator, Nebr., Rep.  
 Hon. Henrik Shipstead, U. S. Senator, Minn., Farmer-Labor.  
 Hon. Hiram Johnson, U. S. Senator, Calif., Rep.  
 Garrard B. Winston, formerly Undersecretary of the U. S. Treasury and Secretary World War Debt Funding Commission.  
 Charles Dick, former U. S. Senator from Ohio, Rep.  
 Walter Russell Batsell, Editor, *The European Economic and Political Survey* (Paris).  
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